December 10, 2012

HALIFAX HEALTH

Southeast Volusia Hospital District
c/o Community Hospital Consulting, Inc.
5801 Tennyson Parkway, Suite 550
Plano, Texas 75024
Attn: David Butler

JEFF FEASEL, A.C.H.E.
PRESIDENT AND CEO

Dear Mr. Butler,

Thank you for the opportunity to respond to the Southeast Volusia Hospital District (SEVHD) Request for Proposal (RFP). We are excited about the prospect of creating a strategic and collaborative relationship that will safeguard the continued delivery of quality healthcare to the residents of SEVHD.

Ensuring the continued operation of Bert Fish Medical Center (BFMC) as a community hospital with local governance and affording BFMC the synergies of being part of a larger system is a central theme in our proposal. These synergies with continued local governance will position BFMC to enhance services in the community.

As legislatively created entities, both SEVHD and Halifax seek to provide quality healthcare while minimizing the level of tax burden to the community. Since 2007, Halifax has been able to reduce its millage rate from 2.75 to 1.25 and annual ad valorem tax support from $52.7 million to $15.3 million. During this same period Halifax has expanded services by investing $284 million while increasing unrestricted cash position from $151 to $427 million. Halifax was recently commended by Governor Scott for its successes in this effort.

Halifax estimates the total financial benefit to SEVHD of this proposal to be $377 million. As detailed further in our response:

- Tax support paid by residents of SEVHD will be reduced by nearly $338 million over 25 years
- Halifax will commit to invest in BFMC at least $35 million over the next 5 years
- The pension liability will be funded
- The working capital loan and Capital Lease will be repaid
- Current board leadership of SEVHD shall have a meaningful and permanent role in governance and direction of BFMC

Enclosed please find our response to the RFP, which provides detailed responses to the questions and key goals identified by SEVHD. Although our proposal is very specific, we can be flexible with regard to the approach, and are open to exploring alternatives to find the optimal structure for our relationship. We welcome the opportunity to discuss our response with you in more detail.

Sincerely,

Jeff Feasel
President & CEO

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halifaxhealth.org

Proposal to
Bert Fish Medical Center

December 20, 2012

Our response is based upon a detailed review of the request for proposal and prior discussions with the Southeast Volusia Hospital District. All aspects of this proposal are non-binding and subject to the results of due diligence and negotiation of a definitive agreement.

Contents

Selection Criteria 1: Identity of Respondent

Identity of the Respondent

Halifax Hospital Medical Center (d/b/a Halifax Health), hereinafter referred to as Halifax.

Selection Criteria 2: Description of Healthcare Operations

A description of the Respondent's existing healthcare operations and facilities, including in particular those in Florida

Question 2a: What experience does your organization have in operating in Florida and the Southeastern United States?

Halifax has been in operation in Florida since 1928 as a public, taxing district hospital serving the health care needs of the Halifax Taxing District and surrounding areas.

On November 5, 2012 the Halifax Board of Commissioners performed the necessary evaluation as required under Florida Statutes 155.40 and made a unanimous determination that it was in the best interest of the community for the Halifax Hospital Medical Center Taxing District to continue to own and operate the hospital.

Please see Appendix 2a for more background information regarding Halifax Health.

Question 2b: How will the Hospital benefit from your existing operations in Florida?

By partnering with Halifax, Bert Fish Medical Center ("BFMC") will benefit in four primary areas, including: a) access to Halifax corporate and clinical resources, b) realization of meaningful cost savings to reduce ad valorem taxes, c) service line development and d) employment advancement opportunities across the entire organization.

Please see Appendix 2b for further discussion.

Question 2c: If Respondent has no experience in Florida, how will Respondent maintain compliance with Florida laws and regulations?

Not applicable to Halifax.

Selection Criteria 3: Access to Healthcare Services

Maintain and expand access to healthcare services in the District, including the provision of indigent care

Question 3a: How would the Resulting Organization enhance the Hospital's position as a full-service acute care hospital with at least the same mix and level of services currently offered?

Through the proposed relationship, BFMC will have access to:

- Halifax financial and human resources
- Capital for clinical and facility improvements
- Physician coverage for needed specialties as identified by BFMC medical staff
- Recruiting opportunities through Halifax residency programs in family medicine and general surgery, along with a sports medicine fellowship
- Expansion of services such as prenatal care
- Increased purchasing power through economies of scale
- Malpractice insurance for medical staff through physician owned Halifax Insurance Plan, Inc.

Question 3a(i):What type and level of services do you believe are essential to this community?

We believe continuation of existing service lines and adding needed additional physician specialists to maintain BFMC as a full-service community-based hospital are essential to the Southeast Volusia community.

The definitive answer to this question can only be determined with significant input and guidance from the BFMC medical staff, management, board and community leaders.

Please see Appendix 3a(i) for further discussion.

Question 3a(ii): What would your commitment be to developing new and needed services?

Halifax is committed to work with BFMC management and medical staff to identify new/needed services and provide our resources to fulfill identified needs and reduce outmigration of patients. The answers to many other RFP questions provide additional, more definitive demonstration of this commitment.

Question 3b: Specifically, describe how you would expect the Resulting Organization to reduce outmigration of patients from the Hospital's service area.

The BFMC medical staff will play an integral role in helping to determine reasons identified by patients for leaving the area for services. Halifax will work to reduce this outmigration through the enhancement of services identified as key to the retention of residents seeking care. This will include joint marketing, branding, contracting and the infusion of no less than $35 million in capital improvements over the next five years addressing needs identified jointly with BFMC medical staff.

Question 3c: Please identify, based on your organization's experience, the most critical factors or obstacles in successfully effectuating the transaction and fulfilling the expressed desire of the community and the District.

Because of our common mission of serving indigent patients, geographic proximity and tax district structures, we believe Halifax and BFMC share a common culture, values and operational philosophies. Alignment in these key areas is critical for a successful future.

A potential challenge to the proposed relationship is the perception of some (certainly not all), that Halifax is motivated to migrate patients from the SEVHD to Halifax. We believe that the nature, content, and commitment of this proposal will dispel this perception and demonstrates Halifax's intention to maintain the long term viability of BFMC.

Please see Appendix 3c for further discussion.

Question 3d: Describe your experience in working with underserved communities.

Since 1928, Halifax has met the needs of the Halifax Taxing District and has served as a safety net hospital for Volusia and Flagler Counties. We use a combination of community clinics, case management, pharmacy programs, hospital services and physician specialists and sub-specialists to meet the needs of all our citizens.

Please see Appendix 3d for further discussion.

Question 3e: What are the priorities of your service area development plan?

The overriding priority for Halifax is to have the most positive impact on the health status of our residents possible.

Please see Appendix 3e for further discussion.

Question 3f: Please describe your organization's current charity care and bad debt policies and programs.

Our comprehensive health care programs and services are available to our entire community regardless of ability to pay. Our charity and self-pay discount programs utilize the Federal Poverty Level for qualification (see Appendix 3f1). These programs are supported by robust policies and procedures to identify third party payment sources and maximize revenue collection from both insured and uninsured patients (see Appendix 3f2). While continuing to provide comprehensive services and care to all, we have been able to significantly reduce the ad valorem taxes levied while maintaining the same provision of services and community benefit. Please see Appendix 3f3 for a table showing the ad valorem tax levy and the associated costs of services and expenditures related to the ad valorem taxes. Also please see "Making Sense of Your Halifax Hospital District Tax" publication attached in Appendix 3f4.

Selection Criteria 4: Long-Term Viability

Maintain and enhance the long term financial viability of the Hospital (and its physicians)

Question 4a(i): Please describe your financial and operational strength, including: Your ability to provide financial resources in the form of cash, notes and/or assumption of liabilities in order to effectuate the transaction. Please provide a description of the expected sources of financing, the anticipated time to obtain such financing and any contingencies thereto.

Halifax has $427 million in unrestricted cash and investments and an A- credit rating from Standard & Poor's and a BBB+ credit rating from Fitch Ratings. Halifax's strong financial profile provides our organization with significant access to additional capital.

There are no financing contingencies for the proposed transaction.

Question 4a(ii): Please describe your financial and operational strength, including: Your ability to fund routine operations (maintenance and upgrades) as well as strategic (major expansions, addition of services, market share expansion) capital expenditure requirements. Please provide evidence of capital expenditures in currently owned facilities.

Halifax has the ability to fund routine operations (maintenance and upgrades) as well as strategic capital expenditure requirements as demonstrated by the Halifax fiscal year 2012 EBITDA margin of 11.4% or $60 million. Halifax has an effective capital investment strategy and approach. Halifax has made significant capital investments during the past 5 years as evidenced by a capital spending ratio of 300%.

Please see Appendix 4a(ii) for evidence of capital expenditures for the past 5 years amounting to $284 million in currently owned facilities and the planned $146 million Halifax capital investment for fiscal years 2013 through 2017.

Question 4b: Please describe how the Resulting Organization will reduce or eliminate the tax burden of the tax-payers of the District.

The synergies of our organizations (Halifax and SEVHD) lay the framework for continuing the success Halifax has demonstrated in reducing both the millage and the absolute tax levy. Reducing outmigration and the resulting increase in revenue; in conjunction with effective labor cost and supply chain management (all in coordination with the medical staff) has been essential in our reduction of tax support. We can extend our experience and together build economies of scale for the benefit of the community.

Since 2007, Halifax has reduced its millage by 54.5% and the absolute tax levy by 71.0%. Not only are we focused on reducing taxes, but we can demonstrate our experience in achieving a significant reduction in ad valorem taxes. While we have reduced ad valorem taxes significantly, we have continued to fulfill our mission of providing for the health care needs of our communities regardless of ability to pay. We believe that we, as a hospital, should be a cornerstone of the community. Please refer to Appendix 3f4 for our annual report to the community on the use of the ad valorem taxes we receive. We believe that BFMC has the same level of importance in southeast Volusia. The delivery of continued community value by BFMC can best be met through an affiliation with Halifax.

In a letter dated October 8, 2012 Governor Rick Scott recognized Halifax for the successful reduction of ad valorem taxes while maintaining service levels, stating "Thank you for taking seriously your role to provide quality health care services and be good stewards of the taxpayer's dollars… Reducing the financial burden on the families in Volusia County is vital so they can redirect that money to other family needs."

After affiliation, Bert Fish Medical Center, Inc. ("BFMC, Inc.") will continue to provide at least the same level of services and service mix for its residents, specifically including services to the poor and indigent at its facilities,

We anticipate our proposed affiliation (discussed in detail in Question 5a) will call for the following maximum payments from the SEVHD.

- Year 1 following commencement – $12.0 million
- Year 2 following commencement – $10.8 million
- Year 3 following commencement – $9.6 million
- Year 4 following commencement – $8.4 million
- Year 5 following commencement – $7.2 million

Thereafter, the SEVHD's payment to BFMC, Inc. shall be calculated based upon applying BFMC, Inc.'s cost to charge ratio to the charges for uncompensated care, defined as charity care and bad debt.

Based upon BFMC, Inc.'s most recent audited financial statements it is estimated that the cost of charity care and bad debt to be approximately $5.7 million for the most recent reporting period.

Additionally, to the extent that EBITDA during the term of the Lease exceeds 12% of revenue or $10 million, whichever is greater, 50% of such excess shall be distributed to SEVHD as a refund ("Additional Reductions in Tax Revenues") of the tax funded SEVHD payment for uncompensated care services, herein provided. The remaining 50% of excess EBITDA shall be retained by BFMC, Inc.

Taxes may also be reduced to the extent that the State of Florida implements health care reform that results in a reduction of uncompensated and under-funded care. Please see Appendix 4b for the tax reduction table and the calculation of BFMC, Inc. charity care and bad debt.

Question 4c: Please provide a copy of the following financial statements: (1) audited financial statements for the past three years and (2) interim period (year-to-date) financial statements.

Please see Appendix 4c.

Selection Criteria 5: Governance

Maintain a local role in governance of the Hospital

Question 5a: Please describe the proposed governance structure (or alternative structures) of the Resulting Organization, and explain how the structure(s) would offer accountability to the communities served by the Hospital.

We propose that the Halifax Hospital Taxing District and the Southeast Volusia Hospital Taxing District enter into an Interlocal Agreement, as authorized by Florida Statute 163.01 the "Florida Interlocal Cooperation Act of 1969" for the operation of the facilities of BFMC (the "Interlocal Agreement"). The Florida Interlocal Cooperation Act of 1969 provides in part that the stated legislative intent is that:

"It is the purpose of this section to permit local governmental units to make the most efficient use of their powers by enabling them to cooperate with other localities on a basis of mutual advantage and thereby to provide services and facilities in a manner and pursuant to forms of governmental organization that will accord best with geographic, economic, population, and other factors influencing the needs and development of local communities."

Pursuant to the Interlocal Agreement, Halifax would become the sole member of BFMC, Inc. BFMC, Inc. shall continue to hold all the necessary licenses and certifications. The Resulting Organization will retain the name "Bert Fish Medical Center" and be subject to all Florida's open government laws. The Interlocal Agreement would set forth the governance structure described below together with all other terms of the relationship between the parties.

In connection with the proposed transaction, a local fiduciary board would continue to govern BFMC, Inc. Conditioned upon the continuing payment by SEVHD for uncompensated care as set forth in response to Question 4b, the BFMC, Inc. Board would be populated by an equal number of members appointed by the SEVHD and Halifax (50/50 governance). The BFMC, Inc. Board would retain authority and governance over all BFMC matters, consistent with past practices with the exception of certain reserved powers vested in the sole member. SEVHD will have the ability to appoint SEVHD Commissioners or other community representatives as it may deem appropriate to represent the interest of the local community. This cross-pollination of directors will help our organizations achieve more effective integration of cultures, operations and strategy, while ensuring that the needs of the communities served by BFMC continue to be addressed.

In the event of a deadlock; the sole member shall have and cast the deciding vote for all matters brought before the Board except for the following:

- Reductions or elimination of existing BFMC services
- BFMC Inc. Medical Staff credentialing

In the event of a deadlock with respect to the above issues, SEVHD shall have and cast the deciding vote.

Question 5b: Please describe how the relationship would work between the Hospital's current governance structure and your organization's board, and the limitations on Hospital's local board authority, including those matters for which approval by your organization's board would be required.

As proposed, the BFMC, Inc. Board will be populated by both SEVHD and Halifax representatives. This structure allows for direct communication between our respective organizations and an ability to share knowledge and perspectives when deliberating issues.

With input from the BFMC, Inc. Board and the BFMC medical staff, Halifax will have the following reserve powers over the operation of BFMC, Inc.:

- Selection and retention of CEO, CFO and other officers

- Approval of operating and capital budgets
- Approval of strategic plans
- Approval of mergers, acquisitions, affiliations or sales of material assets
- Modification of existing debt, leases or similar encumbrances or incurrence of the same
- Exercise of options of the amended lease with SEVHD
- Change of the corporate structure of BFMC, Inc.

Question 5c: How would the local board have influence on and decision making authority on matters that impact the community? Similarly, on issues that will impact the medical staff?

SEVHD will have equal representation on the governing body (not an advisory board) with governance and oversight responsibilities consistent with its current practice; subject to the aforementioned Halifax reserved powers. All current governance and oversight responsibilities consistent with its current practice would continue.

Selection Criteria 6: Financial Terms of Proposed Transaction

Detailed description of the financial terms of your proposed transaction. Whether a sale, lease, or other transaction/arrangement, please include the following information:

There will be an affiliation between the Southeast Volusia Hospital District and the Halifax Hospital Taxing District as follows:

1. SEVHD and Halifax will enter into an Interlocal Agreement whereby Halifax becomes the sole corporate member of BFMC, Inc.
2. The existing lease of the hospital facilities from the SEVHD to BFMC shall continue in effect with certain modification and amendments and shall be incorporated into the Interlocal Agreement.
3. Modifications will be made to the Articles of Incorporation and Bylaws of BFMC, Inc. to reflect the provisions of the Interlocal Agreement.

Question 6a: confirmation of the facilities and assets subject to the proposed transaction;

All facilities and assets shall be subject to the proposed transaction.

Question 6b: the proposed purchase price for the acquired assets, or the lump sum lease payment if a lease;

The following items outline the major commitments of our proposal:

- Capital commitment ($35.0 million for first 5 years of lease)
- Additional anticipated capital investment ($30.0 million for years 6 through 10 of lease)
- Assumption of capital lease obligation ($12.0 million)
- Assumption of unfunded pension obligation ($8.9 million)
- Assumption of working capital loan ($6.2 million)
- Reduction of ad valorem taxes over term of lease ($338.4 million)

Including the significant benefit to SEVHD residents resulting from the reduced proposed ad valorem funding levels as described in our response to Question 4b, Halifax believes the total financial value to the SEVHD and local community resulting from our proposed transaction is approximately $376.8 million in total value with a net present value of $205.7 million, as shown in detail in the following table:

	($ in millions)				
	Halifax Proposal	**Total Value**		**Present Value [1]**	
	Capital commitment	$	35.0	$	30.3
Add:	**Debt and Liabilities (8/31/12) assumed:**				
	Current Portion - Capital Lease		1.5		1.5
	Capital Lease Obligation Payable		10.5		10.5
	Self Insurance & Other Liabilities		1.6		1.6
	Unfunded Pension Liability (as of 1/1/11)		8.9		8.9
	Working Capital Loan		6.2		6.2
	Subtotal		28.6		28.6
Less:	**Cash and investments (8/31/12):**				
	Cash		(4.5)		(4.5)
	Current Board Designated Funds		(0.8)		(0.8)
	Funded Depreciation		(18.8)		(18.8)
	Bond Reserve Funds		(0.2)		(0.2)
	Self Insurance and Pension Trust Funds		(0.9)		(0.9)
	Subtotal		(25.2)		(25.2)
	Total consideration		**38.4**		**33.7**
	Reduced Ad Valorem Taxes [2]		338.4		172.0
	Total Value	**$**	**376.8**	**$**	**205.7**

(1) Capital commitments and ad volorem tax savings discounted to present value using 5% rate.

(2) Calculated as the difference between Halifax proposed ad volorem funding and historical levels.

Question 6c: assumed liabilities;

Those liabilities of BFMC, Inc. which are disclosed pre-affiliation shall continue to be liabilities of BFMC, Inc. post-affiliation. Specifically, this includes the unfunded defined pension plan obligation, self-insurance liabilities, and amounts owed to Medicare and Medicaid in the ordinary course of operation.

Question 6d: excluded assets;

There are no excluded assets.

Question 6e: excluded liabilities;

There are no excluded liabilities.

Question 6f: expected post-closing adjustments to the purchase price or lease payment;

There are no expected post-closing adjustments.

Question 6g: and other post-closing financial commitments.

In consideration of the leasing of all the facilities and assets to BFMC, Inc., BFMC, Inc. shall pay directly to the creditor, when due, an amount of money equal to the total amount payable with respect to the 1995 Series E Bonds, or replacement bank debt, presently outstanding in accordance with the terms thereof and in addition shall repay the outstanding Capital Improvement Loan from SEVHD to BFMC, Inc. in four (4) equal annual installments, the first being due one year after the Commencement Date of the affiliation until the obligation is paid in full. Both of the foregoing are collectively referred to as "Existing Capital Improvement Obligations."

In lieu of the foregoing, at the option of SEVHD, BFMC, Inc. shall make a lump sum payment to SEVHD upon the Commencement Date of the affiliation in an amount equal to the aggregate balance of the foregoing Existing Capital Improvement Obligations. The lump sum payment is intended to relieve the SEVHD of existing debt and provide SEVHD with an infusion of cash. The refinancing required to accomplish the foregoing would be guaranteed by Halifax.

During the term of the Lease and any renewals thereof, 100% of BFMC, Inc. EBITDA shall be used exclusively to enhance and support BFMC, Inc., specifically including but not limited to the following purposes:

1. Fund future BFMC, Inc. capital improvements including routine, strategic and technology improvements ("Capital Improvements")
2. Fund Existing Capital Improvement Obligations
3. Deposit to the BFMC, Inc. funded depreciation account
4. Fund the BFMC, Inc. unfunded defined pension plan liability
5. Fund an appropriate level of working capital for BFMC, Inc. of at least forty five (45) days of BFMC, Inc. operating expense

During the first five years of the Lease, BFMC, Inc. shall first allocate not less than $35 million in EBITDA for the funding of those "Capital Improvements" described in (1) above. In the event EBITDA during the initial term is not sufficient to fund $35 million in "Capital Improvements", Halifax shall contribute to BFMC, Inc. the difference between actual "Capital Improvements" funding for said term and $35 million. This obligation is hereafter referred to as the "Halifax Capital Improvement Commitment".

Selection Criteria 7: Terms of Lease (if applicable)

If the transaction involves a lease, please provide the major terms of such lease, including the following:

Question 7a: term;

Term shall be an initial twenty-five (25) year term with provision for renewal options, subject to any statutory or regulatory limitations of SEVHD.

Question 7b: lease payment schedule;

Please see our response to Question 6g.

Question 7c: renewal options;

There will be a provision for renewal options, subject to any statutory or regulatory limitations of SEVHD.

Question 7d: other key terms;

Halifax will guarantee payment to SEVHD the lease payment as stated in our response to Question 6g.

As stated in the response to Question 4b, after affiliation, BFMC Inc. shall continue to provide the same level of access and service mix for its facilities or services, specifically including services to the poor and indigent at its facilities.

Question 7e: and governance structure.

Please see responses to Selection Criteria 5.

Selection Criteria 8: Terms of Joint Venture Partnership (if applicable)

If the transaction is a joint venture partnership, please include the following: (a) governance structure; (b) ownership percentages for each party as of closing; (c) management arrangement and related fees; (d) reserve powers for each party; and (e) how future cash distributions and capital expenditures will be calculated and handled.

Not applicable.

Selection Criteria 9: Management Support and Systems

Provide in-depth management support and systems – clinical, legal, financial, operational, IT, etc.

Question 9a: How would the Resulting Organization enhance measurable levels of clinical quality and patient satisfaction?

By virtue of the Interlocal Agreement, BFMC, Inc. and Halifax would provide comprehensive care opportunities for both clinicians and patients that would truly enhance clinical quality and patient satisfaction.

BFMC, Inc. and Halifax both utilize Meditech as their core information system and together we can best ensure that BFMC, Inc. is compliant with Stage 1 and Stage 2 Meaningful Use standards funded by EBITDA and to the extent necessary, the Halifax Commitment as defined in our response to Question 6g. This capability of seamlessly sharing information will enhance the opportunities for clinical collaboration and improve the patient experience through more timely evaluation and follow-up and reduced travel for care outside of the patient's locale.

The Resulting Organization, BFMC, Inc., shall have access to, and adopt where appropriate, Halifax coordinated clinical integration and quality improvement initiatives which will specifically include potential opportunities and scale through the arrangement with Orlando Health. Additional support will be available through VHA Southeast benchmarking and best practice sharing as well as our Disney Institute initiative to enhance patient experience and service levels. The foregoing, together with the BFMC Planetree initiative, coupled with input from the BFMC Medical Staff and community based providers will improve clinical quality and patient satisfaction resulting in successful patient outcomes.

Question 9b: How would the Resulting Organization enhance measurable levels of Hospital's employee and physician recruitment, retention, and satisfaction?

Halifax commits to further developing and aligning BFMC Medical Staff.

BFMC Medical Staff members will maintain their privileges in the same status as prior to the Commencement Date.

Halifax is committed to attracting and retaining the best possible health care employees and physicians. The ability to share prospective candidates would increase the recruitment pool, enhance the probability of successful recruitment and provide a sense of stability and opportunity for career growth.

Retention and satisfaction are equally as important as recruitment and Halifax has formal processes to measure both. Annual employee and physician surveys gauge satisfaction levels and benchmark data with like organizations. Periodic and focused surveys are conducted throughout the year in real time to seek input and ideas and to measure the effectiveness of implemented programs and services. Formal Action Reports in response to survey results are created and shared with employees and physicians.

Please see our response to Question11c for more information on physician recruitment/retention opportunities.

Question 9c: Please describe and give specific examples of how you will provide continuing education and staff development within the Resulting Organization and the measurable expected benefit to be derived from those programs as they relate to the Hospital.

Halifax has had a longstanding commitment to offering and enhancing learning opportunities for staff and physicians and would afford these opportunities to BFMC as well.

Please see Appendix 9c for further discussion.

Question 9d: How will Respondent and the Resulting Organization provide and enhance support for the management team and the clinical staff of the Hospital.

Halifax believes that employee, physician and patient satisfaction depends first and foremost on the effectiveness of the leaders within the organization.

Please see Appendix 9d for further discussion.

Selection Criteria 10: Investments in People, Facilities and Technology

Make needed investments in people, facilities and technology

Question 10a: Please describe the specific commitments your organization agrees to make regarding investment in people/providers, technology and facilities over a five-year period and a ten-year period.

Please see responses to Questions 6g and 10b. Specific commitments will be developed in conjunction with the BFMC medical staff and BFMC, Inc. Board.

Question 10b: What portion of the cash flow, before management fee or comparable corporate overhead expense, generated by the Resulting Organization would your organization reinvest in the Hospital and its service area?

Halifax will guarantee that, during the initial 5 years of the lease, no less than $35 million shall be available to fund future BFMC, Inc. Capital Improvements as described in our response to Question 6g. Thereafter, Halifax anticipates approximately 70% of cash flow before management fee or comparable corporate overhead expense will be spent on reinvestment in the Hospital and its service area. We anticipate that approximately $6 million per year will be reinvested in BFMC, Inc. and its service area after the initial 5 year lease term.

Selection Criteria 11: Physician Recruitment and Retention

Recruit and retain physicians in the community

Question 11a: How would the Resulting Organization support the Hospital's ability to align effectively with members of its medical staff?

Alignment with the medical staff includes clinical integration, economic sustainability, and availability of sub-specialties and enhancement of the personal lives of physicians. Halifax is positioned to provide the support for this alignment. Additionally, this affiliation would continue to the extend sovereign immunity to BFMC, Inc. and would provide BFMC, Inc. medical staff to have access, if so desired, to Halifax's physician-owned malpractice insurance company ("HIPI").

Please see Appendix 11b for examples of Halifax approaches to physician integration.

Question 11b: Please describe successful physician integration models which have been utilized by your organization or its affiliates, and what model(s) you would suggest be implemented at the Hospital.

Halifax utilizes multiple models to develop alignment with key physicians including employment, co-management, and program development to find the best fit for each specialty and physician. It would be premature to suggest any models for BFMC without significant input from the BFMC medical staff.

Please see Appendix 11b for examples of Halifax integration approaches.

Question 11c: How would a relationship with your organization improve the Hospital's ability to recruit physicians?

Halifax has a formal Physician Relations and Recruitment Department offering comprehensive human and technological resources for the successful recruitment of physicians. These resources would be available to BFMC as well. Additionally, a relationship with Halifax would offer new physicians the ability take part in our extensive Continuing Medical Education programs, teaching programs with medical students, residents and fellows, research opportunities and collaborative, consultative relationships with physicians on the Halifax staff.

The ability to work and practice at BFMC with the support and access to all medical specialties through Halifax would be very attractive to potential new recruits. Finally, Halifax's formal on-boarding process for new physicians could also be made available to BFMC.

Question 11d: What is your approach and track record for strengthening existing community-based private practices as well as the Hospital's owned practices?

Halifax has provided assistance in recruiting associates to community-based private practices in areas where there is an identified community need and/or to provide for necessary call coverage. Halifax has also connected community-based physicians with practice management support and consulting. Halifax has provided physicians access to group purchasing arrangements to reduce physician office operating cost. Halifax involves all physicians in the development of promotional material to educate the public on service availability.

Selection Criteria 12: Clinical Quality and Compliance Support

Provide enhanced support for clinical quality and compliance

Question 12a: How would the Resulting Organization enhance measurable levels of clinical quality and patient satisfaction, including successful patient outcomes?

Halifax has entered into an arrangement with Orlando Health to develop coordinated clinical integration and quality improvement initiatives. This affiliation between Halifax and Orlando Health will provide potential scale to facilitate sustainable and robust quality initiatives and reduce patient out-migration. This will be additionally supported by the VHA SE benchmarking and best practice sharing. A community-based system of care will be designed in partnership with the BFMC medical staff and community-based providers in Southeast Volusia. This design, in conjunction with the BFMC Planetree initiative, will improve measurable clinical quality and patient satisfaction indicators. We are currently working with the Disney Institute to enhance patient experience and our service level.

Question 12b: Please describe and give specific examples of how you provide continuing education and staff development within your organization and the measurable expected benefit to be derived from those programs as it relates to the Hospital.

Halifax has had a longstanding commitment to offering and enhancing learning opportunities for staff and physicians and would afford these opportunities to BFMC as well. Halifax is authorized to provide CME approved programs and also provides computer-based learning opportunities. Over the past four years Halifax has presented 1,130 professional continuing education programs for a total of 37,478 contact hours. These CME programs and education support would be available to the physicians and professional staff at BFMC. In addition, Halifax sponsors residency programs in family medicine and general surgery along with a fellowship in sports medicine.

Question 12c: Please explain how you measure the above.

Halifax assesses and reports multiple measures to improve performance and would bring additional scale and resources to assist BFMC in continuing to enhance their clinical outcomes. We track multiple internal indicators and all publicly reported data.

Please see Appendix 12c for further discussion.

Question 12d: Please identify what protocols and procedures your organization has in place to ensure compliance by your organization and its affiliates with applicable laws.

Halifax requires every employee to sign a Code of Conduct (See Appendix 12d, Code of Conduct and Values in Action) that is renewed on an annual basis. Halifax also provides specific education during the orientation process of new employees with an annual educational update process through computer based learning. This also tracks participation of every employee. The Halifax Corporate Compliance Officer disseminates information related to regulatory and/or legislative changes on an ongoing basis.

Question 12e: Please describe the extent to which your organization is subject to a corporate integrity agreement, a settlement agreement with a governmental entity or a subpoena which would have an effect on the going-forward operations of the Hospital.

Halifax is not under any corporate integrity agreement or settlement with a governmental entity. Halifax was one of hundreds of hospitals that received a subpoena in 2008 related to Kyphoplasty. The action is still pending. In December 2009, Halifax received two subpoenas related a Qui Tam action filed in June 2009. The government intervened on two narrow issues related to the initial complaint in September 2010. The action is still pending. Halifax does not believe either of the pending actions would have an effect on the operations of BFMC.

Selection Criteria 13: Clinical Program Support and Enhancement

Develop and support new clinical programs that meet service area needs

Halifax believes that the foundation to best meet the service area needs is through close planning and teamwork with the BFMC medical staff, Board and management. Halifax is committed to mutually identifying these needs to enhance and expand service offerings, reduce out-migration and provide additional value to the communities of Southeast Volusia.

Question 13a: Please describe your organization's commitment to provide the Hospital with sufficient investment capital to address the Hospital's investment needs for new clinical programs.

The specific commitments are outlined in the answers to Question 6g. An example of that commitment is the current partnership for provision of oncology services in Southeast Volusia.

Question 13b: Describe what commitments you would make to assure the Hospital's long-term financial stability and ability to support clinical excellence in the future, including amount and structure of capital, investment, and/or contribution.

See Question 6g.

Selection Criteria 14: Local Economy Support

Maintain support of the local economy

Question 14a: How would your organization and the Hospital remain active in the life and fabric of the community, such as with civic organizations, regional planning, and economic development?

Halifax has long had the philosophy that a hospital, as a significant community asset, must be an active and integral part of the community. This philosophy will continue with BFMC and the Southeast Volusia communities.

Please see Appendix 14a for further discussion.

Question 14b: Please describe the long-term commitment which your organization would make to the District in order to assure the continued operation of the Hospital as an acute care hospital in the community on a going-forward basis.

Halifax commits to continuing operation of BFMC, subject to mutually agreed lease terms outlined in the response to Selection Criteria 6 and 7.

Question 14c: Please provide the basic outline and resources for your marketing and communication plan for the community, both during any transition and into the future.

The BFMC message will build on the strengths that it currently offers to the residents of Southeast Volusia while promoting the added benefits to the community and the hospital staff that an expanded partnership would bring. The marketing and communications plan details will be developed in conjunction with the BFMC medical staff and leadership. Communication plans will address both external and internal customers – addressing the commitment to the hospital and the community, the added strength to both internal and external audiences that a partnership would bring and the continued mission and commitment to provide a broad range of services locally to all residents of Southeast Volusia.

During the transition, the themes above will be directed toward both internal and external audiences, but the internal audience (both employees and physicians) will be key in the successful transition to the new organization. These themes will be executed through traditional marketing and advertising vehicles, and reinforced through personal appearances by members of both organizations to begin to build relationships, reinforce the mission, answer questions and ultimately build trust. Going forward, marketing efforts would continue to reinforce the overarching brand as well as promote specific services and programs important to BFMC.

Selection Criteria 15: Hospital Employees

Value the employees of the Hospital

Question 15a: In the event of an integration including the current operations of the Hospital, how would the Resulting Organization preserve existing commitments to current employees of the Hospital?

Halifax believes that a successful transition and future is dependent upon employees knowing they are valued. Halifax wants to retain current employees and build upon the existing team's commitment to BFMC and Southeast Volusia County. The combined presence and needs of both BFMC and Halifax will provide even greater assurance of employment opportunities than would exist with any other entity.

Question 15b: Would your organization support the hiring of all employees in good standing, honoring seniority, and providing substantially equivalent compensation and benefits?

Present employees in good standing will continue employment post commencement with substantially equivalent compensation and benefits. Halifax, as a local employer with 4,000 employees, will experience the need for additional employees through normal attrition, retirement, relocation and health issues. BFMC employees will be afforded additional opportunities for continued employment and advancement in the local community through Halifax. The combined BFMC and Halifax would be very attractive to future employees. The combined geographic presence and proximity provides prospective employees a greater sense of stability and opportunities for career growth without requiring relocation.

Question 15c: Please explain how you measure the above.

Measurement of employment considerations would occur through the record of continued employment at year one following the transaction. This would include the number of employees retained at BFMC, Inc. or elsewhere in the combined system, the number separated voluntarily, the number separated involuntarily, and an annual employee survey.

Question 15d: How would the Resulting Organization enhance measurable levels of the Hospital's employee and physician recruitment, retention, and satisfaction?

Please see response to Question 9b.

Selection Criteria 16: Managed Care Contracting Considerations

Enhance recognition and impact managed care contracting via branding and name awareness

Question 16a: How would the Resulting Organization strengthen the Hospital's market position and enhance community and provider perceptions of its services?

Halifax will continue to build on the market presence of BFMC through expanded service offerings and co-branding initiatives. A key objective of Halifax will be to create a productive, collegial relationship with the medical staff of both organizations to leverage the combined clinical strengths of Halifax and BFMC. We believe that together we can greatly improve the market's perspective of the value and essentiality of the combined organization.

The combined market presence of BFMC and Halifax will create a strong geographic focus of two like-minded organizations sharing a similar mission and focus on providing services to all residents of Volusia County. Both BFMC and Halifax have strong brands in Volusia County. Together we can build upon this historic strength and trust in local organizations serving local residents to build strong local communities.

Question 16b: Please describe how the Resulting Organization might positively impact payor relationships for the Hospital.

BFMC, Inc., the Resulting Organization, will actively and aggressively prepare for a post-reform reimbursement environment in which providers are paid based on quality and managing the care of populations, as opposed to the current fee-for-service reimbursement methodology. As part of the Halifax system, BFMC, Inc. would have access to its infrastructure and expertise to participate in these risk-based contracts and thrive in a post-reform environment.

Selection Criteria 17: Required Approvals

Note required approvals

Question 17a: Please provide a list of any necessary regulatory, corporate or other approvals required to consummate a transaction, along with a statement indicating your ability to secure such approvals in a timely manner.

For the transaction contemplated in response to the RFP, Halifax will be required to receive approval from the Halifax Board of Commissioners. The Halifax Board has indicated its support of entering into an arrangement with the Southeast Volusia Hospital District to further the common mission of both SEVHD and Halifax. Halifax would be able to secure such approval in a timely manner.

Question 17b: Describe any federal or state limitations that might prohibit you from entering into an arrangement with the District.

Halifax prefers to use an interlocal agreement with the Southeast Volusia Hospital District as the instrument to allow the two districts to work together. We anticipate that AHCA will want to approve the change in control within BFMC, Inc., and although we do not anticipate any antitrust issues, we do believe an antitrust analysis would be prudent.

Selection Criteria 18: Liability Considerations

Address transaction liability

Question 18a: Please include a statement acknowledging that neither the District, and Hospital, nor its advisors will be liable to you for any damages or expenses of any kind or type, unless you are the selected Respondent and then, only to the extent set forth in the definitive agreement between the District and the selected Respondent.

Please refer to the letter attached as Appendix 18a.

HALIFAX HEALTH

Proposal to
Bert Fish Medical Center

Appendices

December 20, 2012

Our response is based upon a detailed review of the request for proposal and prior discussions with the Southeast Volusia Hospital District. All aspects of this proposal are non-binding and subject to the results of due diligence and negotiation of a definitive agreement.

Appendix 2a: Overview of Halifax Health

What experience does your organization have in operating in Florida and the Southeastern United States?

Overview of Halifax Health

The Halifax Hospital Taxing District provides a continuum of healthcare services to the residents of east central Florida through a network of organizations. Included within that network are an acute care referral-center hospital, a community hospital, a psychiatric hospital, a community cancer treatment center with three outreach locations, a hospice company, a home health company, a preferred provider organization and an ambulatory surgery center.

The main campus in Daytona Beach is a 678-bed tertiary care facility offering the area's only Level II Trauma Center, Comprehensive Stroke Center, Kidney and Pancreas Transplant service, Level II Neonatal and Pediatric Intensive Care units, Pediatric Emergency Department and Adult Psychiatric services. Halifax Hospital Port Orange is an 80-bed community hospital providing a broad range of services to residents of Port Orange. The Halifax Behavioral Services campus in Daytona Beach provides child and adolescent psychiatric services including a 30-bed inpatient unit. In addition, the District operates an ambulatory care facility located on the District's main campus which also houses physician offices, outpatient rehabilitation, hyperbaric services, pain management and the District's Neuroscience Center.

Halifax Hospital Medical Center ("Halifax") is an independent special taxing district of the State of Florida. Its geographic territory is located in northeastern Volusia County, Florida, primarily including the cities of Daytona Beach, Ormond Beach, Holly Hill and parts of Port Orange. The seven members of the Board of Commissioners (the "Halifax Board") of Halifax are residents of the District and are appointed by the Governor for four-year terms. The Halifax Board is responsible for the management and operation of Halifax.

The current enabling act of Halifax was passed by special act of the Florida Legislature as Chapter 2003-374, Laws of Florida (the "Act"), which codified all prior laws which established Halifax as a special taxing district, a public body corporate and politic of the State of Florida. Halifax was originally created in 1925 under the name "Halifax Hospital District" by Chapter 11272, Laws of Florida, 1925. Pursuant to the Act, Halifax has all powers of a body corporate, including, but not limited to, the power to establish, construct, operate and maintain hospitals, medical facilities and healthcare facilities and services for the preservation of the public health, for the public good and for the use of the public of the District, the power to enter into contracts, borrow money and establish for-profit and not-for-profit corporations, the power to acquire, purchase, hold, lease and convey real and personal property, and the power of eminent domain.

Halifax Holdings ("Holdings") is a not-for-profit corporation organized and existing under the laws of the State of Florida. Holdings is organized to assist Halifax in carrying out its essential governmental function of operating and maintaining hospitals, medical facilities and other healthcare facilities for the preservation of public health and Halifax's related duties and responsibilities under the Act. Halifax is the sole member of Holdings. The property, affairs and business operations of Holdings are managed by its Board of Directors. The Board of Directors consist of not more than seven (7) Directors, each of whom must be a Commissioner of Halifax.

Halifax has established not-for-profit corporations ("Affiliates") to assist in carrying out its purpose to provide healthcare and related services to its community. Halifax, together with the Affiliates, conducts business under the name Halifax Health.

Other Affiliated Corporations

Halifax is authorized under its enabling legislation to establish Florida not-for-profit corporations and organizations as are necessary to form an integrated system for the delivery of healthcare services. A description of the Affiliates, other than Holdings, follows:

Halifax Management System, Inc. ("HMS"). HMS was organized in 1984 as a Florida not-for-profit corporation which provides services to assist Halifax in carrying out its public purpose. HMS owns three office facilities within Halifax's service area. HMS derives income from the rental fees charged to Halifax for office space provided by HMS. HMS is a controlled affiliate of Halifax.

Halifax Medical Center Foundation, Inc. ("Foundation"). The Foundation was organized in 1988 as a Florida not-for-profit, non-stock corporation. The Foundation was created to facilitate a more organized effort in obtaining community donations and contributions for Halifax and its Affiliates. The Foundation is a controlled affiliate of Halifax.

Halifax Hospice, Inc. ("Hospice"). Hospice, which does business as Hospice of Volusia/Flagler, was organized in 1984 as a Florida not-for-profit corporation. Hospice provides palliative medical care and treatment for patients who have less than six months to live. Hospice provides care at its inpatient care centers in Port Orange, Edgewater and Orange City, or at the patient's residence. Hospice is a controlled affiliate of Halifax.

Volusia Health Ventures, Inc. ("VHN"). VHN, which does business as Volusia Health Network, was organized in 1984 as a Florida not-for-profit corporation. VHN operates as a preferred provider organization and also provides utilization review services. VHN is a controlled affiliate of Halifax.

*Halifax Healthy Families Corp. ("Healthy Families").*Healthy Families was organized in 1993 as a Florida not-for-profit corporation. Healthy Families assists Halifax in local coordination of the Florida Healthy Kids program and provides various community outreach services and programs. Healthy Families is a controlled affiliate of Halifax.

*Halifax Staffing, Inc. ("Staffing").*Staffing was organized in 1994 as a Florida not-for-profit corporation. Staffing operates as an employee leasing company solely for Halifax. Staffing is a controlled affiliate of Halifax.

*Patient Business and Financial Services, Inc. ("PBFS").*PBFS, a Florida not-for-profit was originally organized in 1987 as Halifax Home Health, Inc. but changed its name to PBFS in 2000 when it discontinued its home health services and changed its operations to management of the revenue cycle for Halifax. PBFS is a controlled affiliate of Halifax

East Volusia Health Services, Inc. ("EVHS"). EVHS was organized in 2004 as a Florida not-for-profit corporation. Halifax is the sole member of EVHS. EVHS was organized for the purpose of entering into joint-venture agreements to enhance the access and quality of patient care provided to the community. EVHS has a fifty percent (50%) interest in East Central Florida Outpatient Imaging, LLC ("ECFOI"), a Florida limited liability company established to provide outpatient imaging services including MRI, CT, Nuclear Medicine, Mammography, Diagnostic X-ray and other radiological imaging services.

Halifax Facilities

Halifax owns and operates three hospital facilities and several ambulatory facilities. The main campus of Halifax in Daytona Beach, Florida, is the inpatient referral center, providing a Level II neonatal intensive care center, a Level II state-certified trauma center offering open-heart surgery, neurosurgery and other specialty inpatient and outpatient services.

In December 2006, Halifax opened Halifax Hospital Port Orange ("HHPO") is a community hospital providing a broad range of services to the residents of Port Orange. HHPO is an 80-bed facility, which includes an eight-bed intensive care unit.

The Halifax Behavioral Services campus provides child and adolescent psychiatric services including a 30-bed inpatient unit.

At a two-story, 28,000 square foot facility in Ormond Beach, Halifax operates the Regional Oncology Center satellite, which provides outpatient cancer care, including chemotherapy and radiation therapy services. In addition, Halifax operates a three-story, 65,000 square foot ambulatory care facility located on Halifax's main campus, which also houses physician offices, outpatient rehabilitation, pain management and Halifax's Neuroscience Center.

Facilities Update

In 2007 Halifax began the development, acquisition, construction, renovation and installation of capital improvements and equipment consisting of a new inpatient tower, central energy plant and emergency department as well as the acquisition of medical equipment, information technology and furnishings (the "Tower Project"). Construction of the Tower Project, which was intended to address market demands and facility infrastructure requirements, was completed on time and on budget in June, 2009.

The Tower Project added approximately 457,000 square feet of incremental new space to Halifax's main campus, significantly increasing the number of private rooms and doubling the capacity of the emergency department.

The Tower Project included a new, ten-story inpatient tower portion that is connected to the existing hospital facilities on Halifax's main campus. The Tower Project also included constructing a new emergency department that quadrupled the size of the treatment area to approximately 89,000 square feet. The new emergency department houses over 100 new treatment rooms. This added size increased capacity and privacy as well as improved the ability to support fluctuations in patient volumes and strengthened the emergency department's overall capabilities. In connection with the Tower Project, Halifax also constructed a new central energy plant with 20,000 square feet. The central energy plant houses new emergency generators, air conditioning chillers, and a steam generation plant. The central energy plant was constructed with capacity for future expansion.

Halifax has entered into a joint venture with Brooks Rehab for the development and operation of a 40 bed comprehensive rehabilitation unit, scheduled to open in September 2013.

Services

Halifax offers the area's only Level II Trauma Center, Comprehensive Stroke Center, Neonatal and Pediatric Intensive Care Units, Pediatric Emergency Department, and Child and Adolescent Behavioral Services. Additionally, Halifax is the only facility providing Kidney Transplant, Radiosurgery, Gynecological Oncology, and Neurological services to residents in the Service Area. Halifax also operates a three-year family practice residency program with 24 resident positions and a one-year post-graduate fellowship in sports medicine. Halifax initiated a General Surgery residency program in July 2012.

Halifax provides the following services:

Inpatient Services

Ancillary Services:

Computerized Tomography (CT)
Diagnostic Cardiac Catheterization
Electrophysiology (EP)
Electrocardiography (EKG)
Electroencephalography (EEG)
Endoscopy
Laboratory
Nuclear Medicine
Percutaneous
Angioplasty
Pharmacy
Radiology
Respiratory Therapy

Acute Care:

Cardiology
Cardiovascular/Open Heart Surgery
Gynecology
Kidney Transplant
Nephrology
Neurology
Neurosurgery
Obstetrics
Oncology
Orthopedics
Pediatrics
Pulmonology
Renal Dialysis
Urology

Intensive Care:

Adult Psychiatry
Cardiovascular Intensive Care
Child/Adolescent Psychiatry
Medical/Surgical
Pediatric/Neonatal
Level II Neonatal

Outpatient Services

Adult Psychiatric Partial Hospitalization
Cardiac Rehabilitation
Child/Adolescent Psychiatric Partial Hospitalization
Comprehensive Medical/Radiation Oncology
Emergency Services
Endocrinology
Endoscopy
Interventional Pain Management Services
Lithotripsy
Occupational
Physical Therapy
Primary Care
Pulmonary
Same Day Surgery
Speech Therapy

Governance

Board of Commissioners

The seven members of the Board of Commissioners (the "Board") of Halifax are appointed by the Governor of the State of Florida for four-year staggered terms. Board members whose terms have expired continue to serve on the Board until a successor is appointed. The Board has four standing committees: Audit and Finance, Strategic Community Health and Facility Planning, By-Laws and Quality Assurance/Improvement.

The Board and the Audit and Finance Committees meet monthly. The Strategic Community Health and Facility Planning Committee meets at least quarterly, with the opportunity to present a report as part of every monthly Board meeting while the By-Laws and Quality Assurance Committees meet as needed. Respective responsibilities and duties are set out in the Board By-Laws. In that Halifax is a public entity, the Board's conflict of interest policy is primarily set out in Chapter 112, Florida Statutes and Article II, Section 8 of the Florida Constitution.

Members of the Board of Commissioners include:

John P. Johnson - Chairman

John P. Johnson, PhD, is the President and CEO of Embry Riddle Aeronautical University (ERAU) in Daytona Beach.

Dr. Johnson's academic career spans 35 years. He has served as a university president, provost and chief academic officer, college dean, and academic department chair. His appointments have included professorships with tenure at four universities. Prior to being appointed to his current position at ERAU in November 2005, Dr. Johnson served as the university's Provost and Chief Academic Officer. He held the same position at Texas A&M University-Texarkana. He served as a college dean for 13 years at the Medical University of South Carolina and at Northern Kentucky University.

Dr. Johnson has taught at all levels and has an extensive publication record. His primary areas of research inquiry include speech and hearing science, the neurosciences, aerospace education, and academic leadership. He completed post-doctoral programs of study in academic administration at Texas A&M University in College Station (1984) and at the Budget and Control Board's Executive Institute in Columbia, South Carolina (1997-98).

Dr. Johnson served as the Honorary National Chairman of the Silver Wings Society (2008-09). For his leadership in aerospace education and research he received the Jimmy Doolittle Fellowship Award from the U.S. Air force Association (2007).

Dr. Johnson is married to Maurie Rodgers. The second marriage for both, they have seven grown children and eight grandchildren.

Glenn Ritchey - Vice Chairman

Glenn Ritchey, previous Mayor of Daytona Beach, has a long history of business achievement and community leadership in Volusia County.

Ritchey is currently President and CEO of Jon Hall Automotive Group, Southeast Management and Jon Hall Chevrolet; President of Jon Hall Pontiac/GMC, Jon Hall Jeep/Hyundai, Saturn of Daytona, Lloyd Buick Cadillac and Saturn Space Coast; and Vice President of Bennett Chrysler Plymouth Dodge Jeep in Kingsland, Georgia, and Dublin Cadillac/Nissan/GC, Dublin, Georgia. He has received numerous awards from GM during his tenure and currently serves as Chairman of the Advisory Board for GM Vehicle Sales, Service and Marketing, and is on the Advisory Board of GMAC.

A member of the Halifax Health Board of Commissioners since 2000, Ritchey has served on the Halifax Health - Foundation Board of Directors since 1993, and was the Halifax Health - Foundation's President from 1999 - 2011.

In addition, Ritchey is on the Economic Development Board for the City of Daytona Beach and is a charter board member of Gateway Bank of Florida. He has also been active in the United Way, Crimestoppers, the Boys and Girls Clubs, Easter Seals, the American Red Cross, Rotary, and a host of other worthy community causes.

He is a recipient of the Lou Fuchs Award for his contributions to the Daytona Beach area, the Herbert M Davidson Award for outstanding community service from the United Way, the Enterprise Award from the Daytona Beach/Halifax Area Chamber, and had Feb 22, 2002 proclaimed Glenn Ritchey Day by both Volusia County and the City of Daytona Beach.

Susan Schandel - Treasurer

Susan Schandel serves as NASCAR's Vice President and Chief Accounting Officer. She oversees the finance and accounting functions of NASCAR and NASCAR Media Group, including budgeting, long-term financial planning, tax planning and compliance.

Prior to joining NASCAR in 2008, Schandel was employed by International Speedway Corporation where she most recently served as Senior Vice President and Chief Financial Officer. During her 15 year tenure at ISC she played an integral role in its growth from a regional to a national organization. Prior to joining ISC Schandel was employed by Ernst & Young where she served public and private clients in variety of industries.

Born in Ithaca, NY, Schandel obtained a B.S. in Accounting with honors from Penn State University. She is a Certified Public Accountant and a member of both the American Institute of Certified Public Accountants (AICPA) and the Florida Institute of Certified Public Accountants (FICPA).

Schandel is based at NASCAR's corporate headquarters in Daytona Beach, Fla. She and her husband, Dave, have three children.

Karen Jans - Secretary

Karen Jans professional experience includes working for Embry-Riddle Aeronautical University, the University of Central Florida, Isothermal Community College (NC), Winthrop University (SC), Spartanburg Herald-Journal (SC), and the Anderson Independent-Mail (SC.) She also owned and was responsible for Creative Resources, a consulting business in public relations, leadership development, organizational culture-change, and employee development for business, industry and non-profit organizations.

Jans earned her Bachelor of Science degree in journalism and communications from the University of Florida. She is a Seabreeze High graduate, and attended 1st-12th here in Daytona Beach. She is an active member of the community, serving on the Boards of the Daytona Regional Chamber of Commerce, Volusia Tiger Bay Club (President,) and International Speedway Boulevard Coalition (Past Chair.) Jans formerly served on the Boards of Council on Aging, DeLand Area Chamber of Commerce, Museum of Florida Art, ECHO, Neighbor to Family, Stewart Marchman - Act Foundation, and Team Volusia Economic Development Council. She is a member of Daytona Beach Rotary, Daytona Beach Mayor's Advisory Council, Halifax Civic League, Daytona Leadership Council, and UCF Town and Gown and is a past member of Halifax Associates and Daytona Beach Junior League.

Jans is married to Jim McCammon, and share children Sara Jans and Josh McCammon.

Art Giles - Assistant Secretary

A Virginia native, Art Giles has lived in Florida since 1953. He graduated from Mainland High School in 1957.

Soon after graduating high school, Giles began an electrical apprenticeship and eventually founded Giles Electric Co. in 1970, where he continued to work until he retired in 2001.

Giles held the position of City of South Daytona Vice Mayor from 1990 to 1994 and recently was a Volusia County Council member from 2005 to 2008.

Over the years, Giles has served on the YMCA Camp Winona board of directors, United Way board of directors, Daytona Beach & South Daytona Board of Adjustment & Appeals, Volusia County Construction Board of Adjustment & Appeals and the Port Orange & Volusia County Building Trade Board. He has also been involved with the Daytona Beach and South Daytona/Port Orange chambers of commerce.

Giles and his wife Barbara have three adult children - Sheri, Brad and Belinda - as well as four grandchildren.

Daniel Francati - Member

Daniel G. Francati of Ormond Beach has four decades of business management experience, with an emphasis in financial management, accounting and budgeting.

Francati has been the president of Daytona Beach Kennel Club since 2005. Locally, he served two years on the Halifax Area Advertising Authority and is a member of the Daytona Beach Chapter of Rotary Club.

Additional business affiliations include three years as Chief Financial Officer of Delta Queen Steamboat Company in New Orleans, two years as Assistant Managing Director and Financial Officer with Delaware North Australia in Sydney, four years as President of American Park N Swap in Buffalo, New York, and four years as Controller of Sportsystems in Buffalo, New York. Francati was also General Manager with Cesta Punta Deportes in Juarez, Mexico, and controller of American Greyhound Racing in Phoenix, Arizona from 1978 to 1991.

Francati received a bachelor's degree from St. Bonaventure University and a Master of Business Administration from Arizona State University.

Harold Goodemote II - Member

Harold L. Goodemote II has resided in Volusia County since 1984, when he relocated to help construct the Ocean Center.

He is currently the vice president of Coleman Goodemote Construction Company, Inc., where he has worked since 1994. His prior experience includes nine years as Chief Estimator/Project Manager at Foley & Associates Construction Company in Daytona Beach, and four years working as an Adjunct Faculty Member at Daytona Beach Community College. Goodemote is a member of the NASCAR Foundation Board of Directors and chair of its Financial and Governance Committee.

Prior to moving to Volusia County, Goodemote spent five years at Alpco, Inc. in Fairborn, Ohio, and two years at Butler Construction in Dayton, Ohio.

Goodemote received a bachelor's degree from Bowling Green State University and a Master of Business Administration from Stetson University.

Senior Management

Key management personnel responsible for the daily operation of Halifax include the following:

Jeff Feasel, Chief Executive Officer

Jeff Feasel has a long history of providing visionary and strategic leadership. He began his healthcare career in Ohio where he spent 16 years directing essential business operations for the Medical College of Ohio Hospitals in Toledo and Wood County Hospital in Bowling Green. In April of 2000, Feasel joined Halifax where he has filled various critical roles including Chief Operating Officer, President and Chief Executive Officer of Patient Business and Financial Services and Vice President of Halifax-Fish Community Health. In January of 2005 he was named President & Chief Executive Officer of Halifax Health.

As a dedicated healthcare professional, he has been actively involved in the governance of many industry associations and charitable organizations including Emergency Medical Foundation (EVAC), Florida Hospital Association and VHA Southeast. Recently, he was selected to serve as Chairman of the Board of Directors for the Safety Net Hospital Alliance of Florida. He is a member of the American College of Healthcare Executives and Healthcare Financial Management Association, and serves in leadership roles for multiple community organizations, including the Civic League of the Halifax Area, Daytona Regional Chamber Board of Directors and the Healthy Communities Board of Directors.

In addition, Feasel has a passion for education. He has provided oversight for several Florida colleges and universities as a member of the Embry-Riddle Aeronautical University Board of Trustees and the Florida State University Community Advisory Board.

He received his Bachelors of Science in Business Administration from Bowling Green State University and Masters in Business Administration from the University of Findlay in Findlay, Ohio.

Eric M. Peburn, Chief Financial Officer

Mr. Peburn joined Halifax in 1996 as Controller. He was promoted to Director of Finance in September 2003 and to Assistant Administrator in October 2005. Mr. Peburn assumed his current role in November 2007. Prior to joining Halifax, he was an auditor for Ernst & Young LLP in Orlando, Florida. He holds a Bachelor's and Master's degree in Accounting from the University of Florida, Gainesville, Florida. He is a Certified Public Accountant and a member of the Healthcare Financial Management Association, American Institute of Certified Public Accountants and Florida Institute of Certified Public Accountants.

Ann Martorano, Chief Human Resource Officer and Chief Marketing Officer

Ms. Martorano joined Halifax in 1985 as a public relations specialist and then served as director of administrative services and physician recruitment for 15 years. Ms. Martorano was promoted to executive director of Volusia Health Network an affiliate of Halifax, in 2000. In 2005, Ms. Martorano was appointed administrator of Halifax Medical Center Port Orange. She then became the Chief Marketing Officer in 2007 and Chief Human Resources Officer in 2009. She completed her undergraduate degree at Stetson University and is a member of Phi Beta Kappa. She holds a Master's degree in communications and a Master's degree in Health Care Administration from the University of Central Florida. She is a Fellow in the American College of Healthcare Executives.

Arvin Lewis, Chief Revenue Officer

Mr. Lewis joined Halifax in 2002 as the Vice President of Patient Business and Financial Services and was promoted to Chief Revenue Officer in 2010. Prior to joining Halifax, Mr. Lewis was involved in healthcare finance and operations management, holding numerous positions including: director of admissions, director of integration, controller, director of planning /operations and assistant administrator. Throughout his career, Mr. Lewis has focused on Revenue Cycle Management, Business Development, and Strategic Planning. Mr. Lewis holds a Bachelor's Degree in Accounting and an MBA from Valdosta State University, Valdosta Georgia.

David J. Davidson, General Counsel

Mr. Davidson joined Halifax as General Counsel in December 1991. Prior to that date, he practiced law with the firm of Mateer, Harbert& Bates, P.A., Orlando, Florida (1988-1991). He received a Doctor of Jurisprudence degree from the University of Florida College of Law in 1987. He is a member of the American Health Lawyers Association and various bar organizations, and served as chairman of the Volusia County Bar Association Medical/Legal Liaison Committee. Mr. Davidson is board certified as a specialist in health law by the Florida Bar.

Bill Griffin, Director of Planning

Mr. Griffin joined Halifax in 1982 as Associate Administrator and promoted to Chief Operating Officer in 1983. Mr. Griffin assumed the Director of Planning role in 1994. Prior to joining Halifax, Mr. Griffin was a member of the healthcare consulting staff in the Atlanta office of Ernst & Whinney (now Ernst & Young LLP). Mr. Griffin received his Bachelor of Science from St. Lawrence University and his Master's in Healthcare Administration from The Ohio State University. Mr. Griffin has been very active in civic and community service organizations. He has served as District Governor for Rotary International in northeast Florida, Chairman of Community Partnership for Children, and serves on the boards of Halifax Hospice (Hospice of Volusia/Flagler) and the United Way.

Donald Stoner, M.D., Chief Medical Officer

Dr. Stoner joined Halifax as Chief Medical Officer in 2006. He is board-certified in internal medicine and cardiovascular diseases. Dr. Stoner has been associated with Halifax since 1983. His previous roles included director of cardiovascular services, director of the cardiac catheterization lab, director of the chest pain center, director of medical intensive care, director of the heart center, and medical director of the health fitness program. Prior to joining Halifax, Dr. Stoner served as chief of staff at three different area hospitals. In addition, he was a certified and sworn law enforcement officer, serving as a forensic specialist and an active duty officer. Dr. Stoner completed medical school and residency at the University of Miami Medical School. He completed a fellowship in cardiology at the University of South Florida College of Medicine.

Wanda Gerson, Chief Nursing Officer

Ms. Gerson joined Halifax in 2004 as the Director of Resource Management and then served as the Director of Resource and Quality Management for six years. She has worked in the field of nursing for over three decades with more than 20 years of experience in nursing leadership and administration.

She completed her undergraduate degree at the University of Central Florida, received her Master's in Nursing with a focus on nursing administration from the University of Central Florida and is a member of Sigma Theta Tau. She is a diplomat of the American Board of Quality Assurance and Utilization Review Physician and is certified in Health Care Quality Management. She is also licensed as a Health Care Risk Manager.

Medical Staff

The medical staff of Halifax is appointed by the Board and is composed of physicians, dentists, podiatrists, and psychologists who are required to be graduates of recognized schools and training programs, and are licensed to practice in the State of Florida. As of October, 2012, the medical staff consisted of 540 such practitioners.

The medical staff's by-laws require the physicians seeking appointment to the medical staff be board certified or eligible for the examination for such board certification. The following table summarizes selected information regarding Halifax's medical staff.

Halifax Hospital Medical Center Medical Staff

Specialty	Number	Average Age
Allergy & Immunology	6	59
Anesthesiology	20	54
Cardiology	10	55
Cardiology Electrophysiology	1	45
Cardiology Interventional	14	52
Colon/Rectal Surgery	4	55
Critical Care Medicine	7	45
Dentistry	1	65
Emergency Medicine	24	48
Endocrinology	2	52
Family Medicine	98	48
Gastroenterology	13	50

General Surgery	11	52
Gynecologic Oncology	1	52
Gynecology	3	55
Hand Surgery	5	58
Hospice and Palliative Medicine	2	59
Infectious Disease	7	51
Internal Medicine	42	50
Maternal & Fetal Medicine	5	51
Neonatology	9	55
Nephrology	10	48
Neurology	7	53
Neuromonitoring Intraoperative	3	42
Neuro-psychology	1	67
Neurosurgery	6	51
Obstetrics & Gynecology	23	52
Oncology Hematology	9	53
Oncology Medical	1	47
Ophthalmology	22	58
Oral & Maxillofacial Surgery	4	57
Orthopaedic Surgery	18	56
Otolaryngology (ENT)	6	56
Pain Management	6	51
Pathology, Anatomical & Clinical	5	54
Pediatric Critical Care	2	53
Pediatric Gastroenterology	1	58
Pediatric Infectious Disease	1	49
Pediatrics	24	57
Pediatrics, Cardiology	7	47
Physical Medicine	5	44
Plastic & Reconstructive Surgery	7	53
Podiatry	9	47
Psychiatry	5	69
Psychiatry, Child & Adolescent	9	49
Psychology	5	54
Pulmonology	10	55
Radiation Oncology	4	51
Radiology - Vascular & Interventional	4	48
Radiology Diagnostic	16	49
Radiology Interventional	2	50
Reproductive Endocrinology	1	43
Retina	6	45
Sports Medicine	2	43
Surgery, General, Vascular & Transplant	1	51
Thoracic & Cardiovascular Surgery	5	56

Urology	8	57
Grand Total	540	51

Service Area

The general geographical boundaries of the taxing district are northeastern Volusia County, and primarily the cities of Daytona Beach, Ormond Beach, Holly Hill, South Daytona, Daytona Beach Shores, Ponce Inlet and parts of Port Orange. Halifax's service area includes all of Volusia County and portions of contiguous counties (Flagler, Putnam and Lake Counties). The primary service area, which accounts for approximately 70% of Halifax's inpatient discharges, is defined by zip code and includes the cities of Daytona Beach, Ormond Beach, Holly Hill, South Daytona, Daytona Beach Shores, Ponce Inlet and Port Orange (the "Primary Service Area").

Ad Valorem Tax Revenues

Subject to certain statutory requirements, Ad Valorem taxes levied and received by Halifax are designated by law to fund operating expenses, including maintenance, construction, improvements and repairs to Halifax or fund other expenses in carrying out the business of Halifax.

Halifax is empowered under the Act to levy Ad Valorem taxes for various purposes up to 4.0 mills. Halifax receives over ninety percent (90%) of its revenue from patient service revenues. During fiscal year 2007, the Board set out to reduce the taxes imposed on the community served by Halifax while continuing to maintain appropriate levels of profitability. The gross taxable value of property located in Halifax increased from fiscal year 2007 to fiscal year 2008, but has decreased in each subsequent fiscal year. The resulting Ad Valorem tax information for fiscal years 2007 through and including 2013 is as follows:

Halifax Hospital Medical Center Ad Valorem Taxes

$ in millions

	Millage Rate	Tax Levy
FY2007	2.75	$52.7
FY2008	2.50	$50.7
FY2009	2.25	$41.6
FY2010	2.25	$34.6
FY2011	2.00	$26.6
FY2012	1.75	$21.9
FY2013	1.25	$15.3

Millage Rate Reduction (2007 to 2013)	**54.5%**
Tax Levy Reduction (2007 to 2013)	**71.0%**

Employees

Halifax, through its Affiliates, currently employs approximately 4,100 full and part-time employees as of October, 2012, representing approximately 3,500 FTEs.

Halifax has instituted recruitment methods for certain professionals including a competitive salary and benefits program and national and international advertising. Halifax has not experienced difficulty in hiring and retaining qualified personnel. Halifax management believes that its wages and benefits are competitive with other similar institutions in the service area.

Educational Affiliations

Halifax operates a Family Practice Residency program approved by the American Medical Association Council on Medical Education. The program began in 1971 and presently has a total of 24 residents in the three-year program. A one-year fellowship in sports medicine was added to the training program in July, 1997. The Family Residency Program was the first such program to be started within a community hospital in the State and is currently affiliated with the Florida State University College of Medicine the University of South Florida College of Medicine. Halifax initiated a residency program in General Surgery July 1 2012. When fully operational there will be 10 residents in training.

Clinical training for registered nurses, licensed practical nurses, operating room technicians, emergency medical technicians, certified nursing assistants, social workers, physical therapists, respiratory therapists, radiology technicians, ultrasound technicians, sports medicine/fitness technicians, phlebotomists and medical record administrators is conducted in affiliation with Daytona State College, University of Florida, Embry Riddle Aeronautical University. Florida State University, University of Central Florida, Jacksonville University, Bethune Cookman University, Keiser College and many other accredited colleges and universities. Additionally, Halifax conducts in-service training for most professional, allied health, and non-professional positions during the course of the fiscal year. Halifax recently affiliated with Florida State University, to provide for third and fourth-year medical student internships at Halifax.

Accreditation and Licenses

Halifax voluntarily participates in the survey process of The Joint Commission on the Accreditation of Healthcare Organization. Halifax was most recently surveyed in 2012, and received a three-year accreditation. Halifax is licensed by AHCA.

Appendix 2b: BFMC Benefits

How will the Hospital benefit from your existing operations in Florida?

BFMC will benefit in the following areas, resulting in an increase in services offered, an increase in market retention and revenue growth, a reduction in operating expenses, a reduction in ad valorem taxes and a sustainable platform to achieve the mission of the SEVHD.

Corporate and Clinical Resources

Physician alignment and infrastructure

- Halifax has the infrastructure and experience to manage physician employment with over 100 physicians currently employed in multiple specialties.
- Halifax has the infrastructure and experience to develop and manage contractual alignment models with physicians who are not employed for the purpose of managing quality outcomes and cost effectiveness.

Subspecialty Access

- Halifax has the required volume of patients to successfully provide access to sub-specialists through arrangements with other organizations and physician groups. This access could be made available for additional services in the SEVHD.

Recruitment Capability

- Halifax has a strong ability to recruit physicians to our community based upon identified community need. This capability would be available for BFMC.
- Halifax operates two physician residency programs (Family Medicine and General Surgery). These residency programs provide a high potential source of recruitment.

Human Resources (Employee recruitment, development and retention)

- Halifax has a strong Human Resources and employee education capability, providing clinical training for nurses and allied health professionals. This capability would be incorporated into BFMC's existing education and training service

Accounting, Finance and Decision Support

- Halifax has a robust accounting, finance and decision support team with excellent experience, depth and capability. These services would be available to supplement the existing BFMC capabilities.

Clinical Trials

- Halifax participates in many clinical trials that would potentially be available to BFMC's Medical Staff.

Information Systems

- The Halifax information technology capabilities are significant and can assist BFMC in reducing the cost of information system development and maintenance.

Capital Access

- Halifax will enhance access to capital for acquisition of identified technologies to enhance and/or expand BFMC service offerings.

Clinical Quality Improvement

- Halifax has a clinical quality improvement team with the experience and skill to work effectively with the Medical Staff to improve quality outcome metrics. This capability would be available to supplement current BFMC initiatives in this area.

Revenue and Cost Synergies

- Halifax would extend its contracts and contract negotiating capability to BFMC. This has the potential to reduce out-migration and enhance revenue growth.
- Halifax operates a significant clinical staffing pool which can enhance BFMC's management of overtime and reduce the use of contract labor.
- Halifax can assist in reduction of information technology related expenses through the use of its information technology service capability.
- Halifax has a very robust supply chain management function that can affect a reduction in supply cost both through the use of Halifax purchasing arrangements and experience working with the Medical Staff on product standardization and management of vendor relationships.
- Halifax can reduce equipment lease expense by evaluating equipment that could be purchased.
- Halifax can reduce BFMC cost of capital.

Service Line Development

- The oncology joint venture between BFMC and Halifax is an excellent example of the success we can have when we work together to meet the needs of BFMC's service area residents.
- Halifax can facilitate expansion of identified services in BFMC's service area.
- Potential initial service line expansion to enhance access for BFMC's service area residents includes:
    - Obstetrics – outpatient access improves delivery of prenatal care
    - Neurology – to address one area of out-migration
    - Sub-specialty outpatient service access and inpatient consultative services
- Other services will be identified in collaboration with the SEVHD Board of Commissioners and BFMC's Medical Staff

Enhanced Employment Opportunities

- The expansion of the staffing requirements of a combined BFMC and Halifax need provides a higher level of opportunity for employee development and career opportunities.
- The combined presence of BFMC and Halifax would strengthen recruitment effectiveness.
- Employees would be offered the opportunity for transfer for position openings at both BFMC and Halifax.

Appendix 3a(i): Essential Services

What type and level of services do you believe are essential to this community?

Ideally, the answer to this question only comes after in-depth discussions with the Medical Staff, BFMC Board and management and community leaders.

Based upon historical AHCA utilization data by zip code, essential inpatient services include:

- Cardiology (chronic, diagnostic, acute intervention),
- Digestive system services (gastrointestinal, hepatobiliary)
- General Surgery
- General Medicine
- Neurology
- Obstetrics (outpatient)
- Oncology
- Orthopedics
- Pulmonary

Beyond the scope of inpatient acute care is the need to develop a comprehensive, cohesive and integrated System of Care for significant service lines. This would entail entering into partnerships (either financial or clinical) with other entities providing outpatient based services. As we design the desired System of Care for each service line, potential gaps will be identified for strengthening.

Halifax has developed a number of outpatient focused services that would be available for implementation at BFMC. Many are focused on chronic diseases and/or services to address the needs of the elderly, including hypertension, congestive heart failure, COPD and diabetes.

Halifax, through Halifax Hospice, has the largest hospice service in our area with both comprehensive residential facilities and home based services. These hospice services would be more closely integrated into the BFMC service offerings for end of life residents seeking service through BFMC. Halifax has also implemented a successful palliative care service that would be a very positive complement to current BFMC service offerings.

Appendix 3c: Critical Success Factors

Please identify, based on your organizations experience, the most critical factors or obstacles in successfully effectuating the transaction and fulfilling the expressed desire of the community and District.

Additional critical success factors or obstacles include:

- Clear articulation of expectations
- Involvement of key constituent leaders
- Clear and timely communications
- Respect for organization and community values
- Support of Medical Staff and employees
- Agreed upon initiatives with time frames
- Celebration of successes
- Environment to quickly and openly identify and remedy issues
- Sharing of lessons learned, and
- Above all – trust

Appendix 3d: Underserved Communities

Describe your experience in working with underserved communities.

Halifax has a long history of identifying underserved, vulnerable populations within our communities and working with our medical staff, Board of Commissioners and community organizations and leaders to develop solutions to enhance services and improve the health status of identified populations.

Examples of this include:

- The development of neonatal services in the mid-1970's as one of the first in the State of Florida
- The establishment of a Family Practice Residency Program to meet the local area need for primary care physicians
- The development of a Level II Trauma program to meet the needs of our entire community, including our special events populations
- Halifax Behavioral Services to address the needs of children with behavioral/emotional challenges and do so at the local level in partnership with Volusia County Schools
- Keech Pediatric Clinic located in a very underserved area of Daytona Beach is located adjacent to Children's Medical Services eliminating transportation access obstacles and financial obstacles faced by this population
- Establishment of an Adult Chronic Condition Clinic for those uninsured or underinsured adults with chronic conditions, providing a humane, dignified service for those without access to routine, consistent primary care
- Establishment of adult clinic services for those seeking non-emergency services in a more personal, cost effective setting
- Establishment of an outreach medical service in partnership with Halifax Urban Ministries to address the unique needs of the homeless
- Partnership with Stewart Marchman Act to address the needs of those with chronic mental impairment and also substance abuse issues
- Working with Stewart Marchman Act and Project Warm delivering services to pregnant residents with substance use issues
- Outreach joint programs with the Volusia County Health Department for identified community needs
- Program development and support for Sickle Cell service offerings on an outpatient basis
- Partnership with Healthy Start to enhance positive outcomes of newborns

Appendix 3e: Service Area Priorities

What are the priorities of your service area development plan?

Priorities for the Halifax service area development plan include:

- Services most needed to enhance/improve the health status of our residents utilizing a comprehensive system of population health status measurement and comparison developed in conjunction with the University of North Carolina-Charlotte
- Confirmation of these findings with Medical Staff and local community leaders
- Identification of significant outmigration patterns to identify potential access offerings
- Appropriate access to services (geographic, time of day and financial)
- Continued focus on reducing cost and improving quality
- Alternatives to more expensive sites of care (both E.D. and acute care admissions)
- Total, comprehensive System of Care design, inventory and gap analysis
- Address the needs of those with chronic illness
- Partnering with other community organizations
- Ability to sustain any service offering developed

Appendix 3f1: Charity Care and Bad Debt Policies and Programs

Please describe your organization's current charity care and bad debt policies and programs.

We use the Federal Poverty Level ("FPL") as a base for our charity and discount criteria:

- Patients with incomes less than 200% of FPL qualify for charity and a full write off of their account.
- Patients with incomes greater than 200% of FPL but less than 400% FPL qualify for our self-pay discount program and pay a percent of Medicare reimbursement.
- Patients with incomes less than 400% of FPL with high medical expenses may qualify for our catastrophic charity program.

Appendix 3f2: Charity Care and Bad Debt Policies and Programs

Please describe your organization's current charity care and bad debt policies and programs.

At Halifax Health we focus on our mission of providing care to everyone, but we firmly believe in our stewardship responsibilities. Our goal is to ensure patients receive the right care, at the right time, in the proper setting and amount. We also believe that Hospital and District funds should only be used as a last resort. We actively screen uncompensated care patients to determine if they qualify for other programs / funding sources (Medicare, Medicaid, VA, Victim's Compensation, Ryan White, HCRA, Cobra, and various foundations / other sources).

We interview patients to review their assets and resources. Our staff is polite and professional while probing to develop a full picture of the patient's resources. We call this process Day Zero; which means as our talented clinicians care for our patients, our Revenue Cycle Staff works to analyze the demographic and financial data to create actionable knowledge. We use this knowledge, credit reports, propensity to pay scoring, and our assessment skills to segregate patients that are unable to pay from those that choose not to pay.

For those that cannot pay, we have multiple Charity and Self Pay Discount Programs.

Charity / Self Pay Discount Programs
Income less than 200% of the Federal Poverty Level guideline (FPL) - full write off.
Income less than 400% FPL with high medical expenses may qualify for our catastrophic program.
Income greater than 200% of FPL but less than 400% FPL qualify for our self pay discount program. The amount paid is a percentage of our Medicare rate based on their income.

Green Card Program
Our Charity patients with chronic conditions receive primary care, specialty care, case management, and medications to improve their health and prevent use of higher cost acute care services. We also work with these patients to apply for other programs and funding sources.

Blue Card Program
Our Blue Card Program is for patients we believe will qualify for Charity. This program ensures that the patient will receive all required post discharge care for 30 days while we work with them to qualify for Charity.

We use these and other programs to ensure patients receive the care they need and to actively control the cost of uncompensated care.

For those that can pay and choose not to, we use skill, determination, technology, precise workflows, and business partners to collect payment for the care we provide. We work closely with patients to explain our programs and their options. In most cases, we can develop acceptable payment terms with the patient. When we cannot reach an agreement over payment terms, we review our options and continue to attempt to collect for the care we provide.

All of these processes help us meet our stewardship responsibilities. We balance the needs of the patient and the needs of our system and our community. One example of our success is the impact of our uncompensated care screening process. We have been successful in shifting millions of dollars of uncompensated revenue to Medicaid over the last several years:

FY 2009	$46.1 million
FY 2010	$49.9 million
FY 2011	$54.5 million

We also aggressively manage our accounts receivable by focusing on cycle time and cash maximization. We develop effective managed care relationships and ensure that our claims are processed accurately. Hospital and physician revenue management is highly complex. Halifax has developed the skills and resources necessary to excel at all revenue cycle functions. We would look forward to working with BFMC in this area and together reducing:

1. Total charity care
2. Total bad debt
3. The need for ad valorem taxes

Appendix 3f3: Charity Care and Bad Debt Policies and Programs

Please describe your organization's current charity care and bad debt policies and programs.

Halifax Hospital Medical Center Ad Valorem Taxes, Program and Service Costs Associated with Ad Valorem Taxes

$ in millions	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Millage Rate	*2.75*	*2.50*	*2.25*	*2.25*	*2.00*	*1.75*	*1.25*
Tax Levy	$52.7	$50.7	$41.6	$34.6	$26.6	$21.9	$15.3
Cost of Uncompensated Care and Other Use of Taxes	$65.3	$64.2	$54.9	$54.8	$58.7	$60.6	$61.3
Amount Not Reimbursed by Ad Valorem Taxes	**$12.6**	**$13.5**	**$13.3**	**$20.2**	**$32.1**	**$38.7**	**$46.0**

Appendix 3f4: Charity Care and Bad Debt Policies and Programs

Please describe your organization's current charity care and bad debt policies and programs.

Please see the publication entitled "Making Sense of Your Halifax Hospital District Tax" on the following page.

HALIFAX HEALTH

MAKING SENSE OF YOUR HALIFAX HOSPITAL DISTRICT TAX

Your Contribution To Quality Healthcare

The Volusia County Tax Appraiser's office recently mailed its annual *Understanding Your Property Tax* letter explaining how our property taxes are spent, including those for Halifax Hospital Taxing District. Among other things, the letter details how property taxes help fund a variety of services, including medical programs provided by Halifax Health that are essential to the well-being of our community.

As the area's healthcare leader since 1928, Halifax Health was created to serve the residents of East Central Florida. While tax dollars make up only 4 percent of what it costs to operate an organization of our size and scope, these funds provide critical support for programs that all residents in our district depend upon and that enhance the overall health of our community.

Tax revenues help fund the only Level II Trauma Center within 60 miles, the only 24-hour Neonatal and Pediatric Intensive Care Units, Child & Adolescent Behavioral Services as well as community medical clinics. The reality is, many hospitals do not provide these services because they aren't profitable. But without them our loved ones would have to be transferred to facilities out of the area to receive timely and life-saving treatment. Our services are something even other hospitals rely upon. Last year alone, we received over 1,300 transfer requests because Halifax Health was the only local facility capable of caring for those patients.

As Florida's largest emergency department and one of the busiest in the state, we see more than 120,000 emergency patients each year. The exceptional care provided in facilities throughout our organization is something that should make every member of our community very proud. In fact, Halifax Health has had the honor of being recognized with multiple awards for outstanding clinical outcomes, including being ranked by HealthGrades among the top 5 percent in the nation for overall orthopedic services for six years in a row, among the top 5 percent in the nation for spine surgery five years in a row; and five-star rated for gynecologic surgery, women's health and orthopedic surgery in 2011. We are the most accredited heart program in the state and the area's only certified Comprehensive Stroke Center. In addition, Halifax Health has the longest standing Family Medicine Residency Program in the region and has recently developed a General Surgery Residency Program. These accomplishments are due to one thing and one thing alone - the commitment and skills of our outstanding medical staff and all Team Members who choose to work at Halifax Health.

While quality is always our primary focus, we are also dedicated to being fiscally responsible. It is part of our mission and has resulted in a 57 percent reduction in taxes levied over the last five years. Our tax rate is the lowest it has been in over 50 years while our quality of service has never been higher. Our commitment is to continue to reduce our reliance on tax dollars while providing the best possible healthcare in an environment of persistently declining property values and decreasing Medicare and Medicaid reimbursements. This commitment, however, is only attainable with your help.

Halifax Health belongs to you. Whether you are a physician who must choose where to send patients or a community resident who suddenly has a healthcare need, your choice of Halifax Health

Continued on following page.

> "Tax dollars make up only 4 percent of what it costs to operate an organization of our size and scope, these funds provide critical support for programs that all residents in our district depend upon and that enhance the overall health of our community.

Your Contribution To Quality Healthcare *continued from preceeding page.*

for care lessens our reliance on tax dollars – and facilitates access to the highest quality medical services. In exchange for your support, we are committed to tirelessly seeking new sources of revenue and ways to operate as efficiently as possible.

As area residents we share the benefits of the exceptional healthcare professionals, services and facilities at Halifax Health, and the responsibility to help support them. We hope that you will feel proud to have contributed to advanced, life-saving medical services equivalent to those typically found in the country's largest metropolitan cities. We couldn't be who we are without the community's support. Halifax Health's legacy continues even in the face of difficult economic times and you can continue to expect outstanding care for generations to come.

Your Tax Dollars at Work

Halifax Health levies property taxes to support our public mission. This graph shows how each tax dollar is used. Of the $21.9 million in tax proceeds levied by Halifax Health in fiscal year 2012, $2.1 million is being utilized to provide uncompensated care for hospital services. The taxes collected in FY12 fell millions of dollars short of paying for the uncompensated care delivered by the District. The deficit is funded from non-tax sources, such as the operating revenues of Halifax Health.

Of each tax dollar levied:

4¢ Is used to pay the Property Appraiser and Tax Collector.

3¢ Is unable to be collected due to early payment discounts or nonpayment.

8¢ Is used to fund the Volusia County Medicaid match.

5¢ Is paid to redevelopment districts in the cities of Daytona Beach, Daytona Beach Shores, Holly Hill, Ormond Beach and Port Orange.

Taxes collected in 2012 are expected to fall $38.7 million short of paying for the uncompensated care delivered by the District.

27¢ Is used to provide the additional readiness measures needed for our trauma services.

10¢ Is used to partially offset the $40.8 million of uncompensated care provided by Halifax Health, at cost.

12¢ Is used to provide funding for our pediatric and neonatal intensive care services, child and adolescent behavioral services and preventative healthcare services (clinics, HealthyKids, etc.).

31¢ Goes to community physicians to cover the cost of those unable to pay for services.

Out of each dollar levied, 3¢ is unable to be collected due to early payment discounts or nonpayment. An additional 17¢ is diverted by law to pay: Volusia County's mandatory contribution to the state's Medicaid Trust Fund, to help support local redevelopment districts and to reimburse the tax assessor and collector for their services.

Schedule of Uses of Property Tax Dollars

($ in millions)

	ACTUAL 2010	ACTUAL 2011	ACTUAL/ PROJECTED @ 1.75 MILLS 2012	BUDGETED @ 1.25 MILLS 2013
Total gross property tax levy	$ 34.6	26.6	21.9	15.3
Tax discounts and uncollectible taxes	- 1.6	- 0.4	- 0.7	- 0.5
Subtotal of property taxes collected	**$ = 33.0**	**= 26.2**	**= 21.2**	**= 14.8**
Amounts paid to Volusia County and Cities:				
Tax collector and appraiser commissions	$ - 1.1	- 1.0	- 0.9	- 0.6
Volusia County Medicaid matching assessment	- 1.7	- 1.9	- 1.8	- 1.7
Redevelopment taxes paid to cities	- 2.7	- 1.7	- 1.2	- 0.8
Subtotal of taxes available for community health, wellness and readiness	**$ = 27.5**	**= 21.6**	**= 17.4**	**= 11.7**
Amounts paid for community health and wellness services:				
Preventive health services (clinics, Healthy Kids, etc.)	$ - 0.7	- 0.8	- 1.2	- 1.3
Trauma services	- 6.4	- 5.2	- 5.9	- 5.9
Pediatric and neonatal intensive care services	- 0.9	- 1.0	- 1.2	- 1.2
Child and adolescent behavioral services	- 0.6	- 0.3	- 0.3	- 0.3
Physician services for community programs	- 6.8	- 7.0	- 6.7	- 6.8
Total taxes available to fund uncompensated care	**$ = 12.1**	**= 7.3**	**= 2.1**	**= - 3.8**
Uncompensated care provided by Halifax Health, ***at cost***	**$ - 32.3**	**- 39.4**	**- 40.8**	**- 42.2**
Uncompensated care, ***at cost,*** not paid for by property taxes	**$ = (20.2)**	**= (32.1)**	**= (38.7)**	**= (46.0)**

Property taxes to be collected by Halifax Health in 2013 are projected to be 55.2% less than the amount collected in 2010.

Community Benefits

Halifax Health has served as the leading provider of healthcare in our community for 84 years. Let's take a closer look at the benefits.

Service to Under and Uninsured Patients = $40.8 million
Medicaid and Medicare Deficits = $24.1 million
The health system is spending more than **$40.8 million** in fiscal year 2012 (FY12) to care for patients who were under- or uninsured. This number does not include the **$24.1 million** that will be spent subsidizing Medicaid and Medicare deficits.

Physician Services for Community Programs = $6.7 million
The medical staff at Halifax Health consists of more than 500 area physicians, representing 46 medical subspecialties who serve community programs.

Trauma Center = $5.9 million
Halifax Health operates the only Trauma Center in the area. This means that trained professionals including trauma surgeons, specialists and staff are available 24-hours a day, seven days a week, to care for the area's most emergent healthcare needs. In FY12, Halifax Health has spent **$5.9 million** to maintain its promise to the community that no matter the emergency, the Trauma Center at Halifax Health is here to serve.

Preventive Health Services = $1.2 million
Through local clinics and programs such as Healthy Communities, Halifax Health contributed **$1.2 million** to preventive health services in FY12.

Neonatal and Pediatric Intensive Care Units = $1.2 million
The area's only 24-hour Neonatal Intensive Care Unit (NICU) and the only Pediatric Intensive Care Unit (PICU) are located at Halifax Health. These services guarantee 24-hour care for babies and children in our community.

Child and Adolescent Behavioral Services = $0.3 million
Halifax Health - Behavioral Services is the only organization of its kind in the area. Halifax Health has contributed **$0.3 million** in FY12 to provide Psychiatric and Psychological services to children and adolescents, as well as individual, family and group counseling.

Total Benefit to the Community = $80.2 million
During FY12, Halifax Health has provided abundant benefits to the community, resulting in a total contribution equal to **$80.2 million**.

Community Impact

Every year, Halifax Health touches thousands of lives in many ways. Here are a few statistics on some of the services that meant so much for so many last year:

Patients requested to be transferred to Halifax Health from other facilities	1,310
Patients treated in Halifax Health clinics	17,029
Prescriptions filled for clinic and patient assistance patients	12,599
Halifax Health nurses and counselors serving in our schools	10
Halifax Health nurses and counselors serving at the homeless shelter	2
Patients seen at Halifax Health Emergency Departments	121,686
Patients arriving at Halifax Health aboard trauma helicopters	144
Patients treated in the Halifax Health Trauma Center	1,918
Babies born at Halifax Health	1,824
Babies treated in the Neonatal Intensive Care Unit	198
Children treated in the Pediatric Intensive Care Unit	339
Children who received outpatient therapy from Behavioral Services	1,095
Screenings performed by Behavioral Services	1,442
Inpatient admissions at Behavioral Services	1,216
Children who received water safety instruction through Healthy Communities*	528
Children who received bicycle helmets through Healthy Communities*	385
Children enrolled in Healthy Kids, Children's Medical Services, MediKids and Children's Medicaid	49,042
Children who received grief counseling from BeginAgain Children's Grief Centers	561
Classes offered for childbirth preparation	18
Patients who received outpatient diabetes education	3,299

HALIFAX HEALTH

halifaxhealth.org

Halifax Health Medical Center
303 N. Clyde Morris Blvd., Daytona Beach, Florida 32114
386.254.4000

Halifax Health - Medical Center of Port Orange
1041 Dunlawton Ave., Port Orange, Florida 32127
386.322.4700

Halifax Health - Hospice of Volusia/Flagler
3800 N. Woodbriar Tr., Port Orange, Florida 32129
386.322.4701

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Appendix 4a(ii): Capital Expenditure History

Please provide evidence of cap expenditures in currently owned facilities.

The schedule below summarizes the Halifax capital expenditures for the past five fiscal years, and the capital expenditure plan for the next five years.

Halifax Health
Capital Expenditures/Planning
(Dollars in Thousands)

Actual Capital Expenditures

	FY 08	FY 09	FY 10	FY 11	FY 12	Total
France Tower	$200,000	$0	$0	$0	$0	$200,000
Infrastructure/Facilities	$6,974	$1,497	$5,941	$17,060	$7,017	$38,489
Service Expansion/New Technology	$0	$0	$0	$6,700	$0	$6,700
Information Technology	$2,068	$690	$1,859	$3,048	$2,486	$10,151
Medical Equipment	$8,180	$4,993	$9,117	$2,691	$1,278	$26,259
Hospice Capital Expenditures	$0	$0	$0	$443	$90	$533
Lease Equipment Buyouts	$0	$0	$0	$130	$1,440	$1,570
	$217,222	$7,180	$16,917	$30,072	$12,311	$283,702
Depreciation/Amortization	$13,278	$15,943	$23,100	$20,561	$20,750	$93,632

Planned Capital Expenditures

	FY 13	FY 14	FY 15	FY 16	FY 17	Total
Infrastructure/Facilities	$17,478	$18,123	$3,868	$6,801	$4,937	$51,207
Service Expansion/New Technology	$6,000	$6,000	$4,000	$4,000	$4,000	$24,000
Information Technology	$3,500	$4,000	$3,800	$4,000	$4,000	$19,300
Medical Equipment	$3,909	$10,418	$12,863	$3,787	$11,683	$42,660
Hospice Capital Expenditures	$6,300	$500	$500	$500	$500	$8,300
Lease Equipment Buyouts	$213	$0	$0	$0	$0	$213
	$37,400	$39,041	$25,031	$19,088	$25,120	$145,680
Depreciation/Amortization	$22,358	$24,043	$24,404	$25,651	$25,578	$122,034

Appendix 4b: Tax Burden Reduction

Describe how the proposed transaction will reduce or eliminate the tax burden for District

The synergies of the two organizations (Halifax Health and SEVHD) lay the framework for continuing the success Halifax has demonstrated in reducing both the millage and the absolute tax levy. Reducing outmigration and the resulting increased revenue along with effective labor cost and supply chain management in coordination with the medical staff has allowed us to reduce taxes. We can further build economies of scale as we move forward with BFMC. Since 2007, we have reduced our millage by 54.5% and the absolute tax levy by 71.0%. Not only are we focused on reducing taxes, but we can demonstrate our experience in achieving a significant reduction in ad valorem taxes.

Through effective cost management and enhanced revenue growth, Halifax has been able to reduce ad valorem taxes since 2007 as demonstrated in the following table:

$ in millions

	Millage Rate	Tax Levy
FY2007	2.75	$52.7
FY2008	2.50	$50.7
FY2009	2.25	$41.6
FY2010	2.25	$34.6
FY2011	2.00	$26.6
FY2012	1.75	$21.9
FY2013	1.25	$15.3
Millage Rate Reduction (2007 to 2013)		**54.5%**
Tax Levy Reduction (2007 to 2013)		**71.0%**

Method of Calculation of Bert Fish Medical Center, Inc. Charity and Bad Debt Cost

BFMC, Inc. Audited Financial Statements 9/30/2011
in thousands

Operating Expenses	$86,300	page 32
Patient Service Charges	$234,300	page 20
Cost to Charge Ratio	36.83%	(A)
Bad Debt Charges	$7,700	
Charity Charges	$7,900	
Total Bad Debt/Charity Charges	$15,600	(B)
Cost of Uncompensated Care = (A) x (B)	$5,746	

Appendix 4c(1):Audited Financial Statements

Audited financial statements for past 3 years

Please refer to the end of this document for the attached audited financial statements for Halifax Health for fiscal years 2011, 2010 and 2009.

Appendix 4c(2): Interim Financial Statements

Interim financial statements for 2012

Please refer to the end of this document for the attached interim financial statements for Halifax Health.

Appendix 9c: Education and Staff Development

Please describe and give specific examples of how you will provide continuing education and staff development within the Resulting Organization and the measureable expected benefit to be derived from those programs as they relate to the Hospital.

Halifax has long been committed to offering and enhancing learning opportunities for staff and physicians and would afford these opportunities to BFMC as well. With an active Medical Library since 1963, this Resource Center provides access to medical information resources through the purchasing or licensing of electronic medical data bases, medical resource books and journals to support physicians, staff and community professional education/research needs. Ready access to targeted medical research and best practice data bases are the gold standard for staying on the cutting edge of medical / professional / nursing practice. Through active participation in quality committees and best practice work groups, the Medical Library / Educational Services provides targeted, real-time data to staff and physicians to help make the best medical /care decisions that will positively impact the community's overall health status.

Continuing medical education programs are provided for many professional specialties and include:

- PALS (pediatric advanced life support)
- ACLS (adult cardiac life support)
- ENPC (emergency nurse pediatric course)
- TNCC (trauma nurse core course)
- BLS (basic life support)
- Basic EKG certification
- NetLearning - Halifax on-line learning site

Halifax is accredited by the Florida Medical Association to be a provider of category 1 physician Continuing Medical Education (CME accreditation through 2016) as well as Con-Ed for nursing licenses. The Medical Library is a member of the National Network of Libraries of Medicine.

Regular physician CME is provided through weekly Grand Rounds and Surgical Rounds and monthly Pulmonary Thoracic Tumor Conferences. Physician and professional staff are provided educational opportunities through targeted clinical programs such as: Trauma Stat; Stroke and Neuro Conferences; CCRN (critical care RN) exam reviews and many others.

Halifax offers extensive Tuition Reimbursement and Tuition Loan programs for full-time and part-time staff. From GED and foreign language assistance to collegiate and doctoral degrees, Halifax encourages our team to continually strive for more education and provides the means to succeed through our extensive Human Resources and Educational Services support.

Appendix 9d: Support of Mgmt. and Clinical Staff

How will Respondent and the Resulting Organization provide and enhance support for the management team and the clinical staff of the Hospital?

In addition to the clinical education and staff development programs outlined in Appendix 9c, an affiliation between BFMC and Halifax would allow the management team and clinical staff to work together to share expertise, knowledge and basic manpower where shortages or needs might arise.

Halifax also uses a structured approach to leadership development and talent management in order to support our management team with the necessary tools and instruction to reach their potential as leaders. The tools and methodology used in this process represent an evidence-based, structured approach to leadership performance and talent management.

Through employee surveys, executive analysis and behavioral assessments, management receives performance information in an easy to understand format that results in actionable knowledge allowing our management team to create specific action plans and coaching prescriptions customized for their development needs while enhancing their contribution to overall organizational performance.

One-on-one coaching sessions and educational sessions are held to provide additional support and assistance to current and upcoming leaders. Formal Leadership Continuity and Succession Planning indicate where specific leadership roles are possibly vulnerable due to current leadership responsibilities, tenure, retirement plans, professional development timelines and performance bench strength.

The Halifax Leadership Academy is part of our formal leadership and management development process that identifies the best leadership talent to develop and deploy within our organization to assure consistent long-term performance.

Appendix 11b: Medical Staff Alignment

How would the Resulting Organization support the Hospital's ability to align effectively with members of its medical staff?

Halifax would support Bert Fish Medical Center's ability to align effectively with its medical staff using the experience and success Halifax has enjoyed, including the following potential approaches.

Halifax currently employs over 100 physicians in the following specialties; Emergency Medicine, Medical Oncology, Radiation Oncology, Urology, Plastic Surgery, Hand Surgery, Pediatrics, Hospitalists, Intensivists, Family Medicine and Psychiatry. The employment arrangement premise is to provide necessary community access and incorporates both productivity and agreed upon quality performance objectives.

Halifax has co-management arrangements with physicians to provide management services and promote quality outcomes and cost effective services, including ambulatory surgery and cardiology services.

Halifax also has contracts with community physicians for the provision of professional services to facilitate the Halifax mission, provide Level II trauma, residency program direction, neonatal services and obstetrical hospitalist services. These contracts provide a basis of alignment of clearly articulated goals, objectives and measurements.

Halifax believes that the next level of alignment requires development of a clinical integration platform to provide the ability to meet the future health care reform initiatives whether they be bundled payments or population based payment methods.

This next level of integration will require building a common vision and culture to facilitate meaningful clinical integration. Key components include; developing clinical leadership, aligning with pre and post-acute care providers, integration of provider health information systems, population and disease management capabilities, patient centered medical homes, referral coordination and management systems and adoption of evidence based care.

Halifax is confident in being able to develop this clinical integration platform in conjunction with other community and regional partners.

Appendix 12c: Performance Improvement Measures

Measurement of Performance Improvement

Halifax utilizes several methods of measuring quality and performance improvement including:

- Patient Satisfaction – NRC/Picker
- HCAHPS
- Core Measures
- VHA SE clinical and cost benchmarking
- Readmission rates for selected conditions
- Admission rates for Potentially Avoidable Admissions
- Performance benchmarking with various clinical specialty related organizations
- Clinical trials (various)
- Physician opinion surveys (Healthcare Performance Solutions)
- Employee engagement and opinion surveys (Healthcare Performance Solutions)
- Leadership development and effectiveness measurement (Healthcare Performance Solutions)

Appendix 12d: Compliance Protocols and Procedures

Please identify what protocols and procedures your organization has in place to ensure compliance by your organization and its affiliates with applicable laws.

Please refer to the end of this document for Halifax Health's Code of Conduct, our governing document for the Halifax Health Corporate Ethics and Compliance Program.

Appendix 14a: Community Involvement

How would your organization and the Hospital remain active in the life and fabric of the community such as with civic organizations, regional planning and economic development?

Halifax encourages employees to pursue active leadership roles in local government, civic and community service organizations, participating in creating a positive position for job creation, industry recruitment and economic development. Halifax leadership has been integrally involved in the Halifax Area Chamber of Commerce, the Civic League, United Way, various city government positions, boards of community service organizations and a number of humanitarian charitable organizations.

Halifax understands the importance of being a major employer within the community and is committed to sustain Bert Fish Medical Center as a major employer and community asset in Southeast Volusia. Halifax would encourage employees of Bert Fish Medical Center to be active participants in community building and leadership.

Halifax is an active organizational partner with the International Speedway Corporation and NASCAR in furthering the overall health of our community. Halifax has partnered with the Vince Carter Charities Foundation to enhance the standard of living for many under privileged residents. Halifax has a strong relationship with the Florida State University College of Medicine through the Daytona Beach campus and serves as a major clinical training site for medical students. Halifax has strong partnership relationships with Embry Riddle Aeronautical University, Bethune Cookman University and Daytona State College. Halifax is a partner with Volusia County Schools in a number of initiatives.

Halifax also serves as a safety net for health care issues, working in concert with other agencies to address the needs of the community, particularly the poor and underserved.

Halifax leadership is engaged in the community through multiple avenues, including:

- Annual Dinner Committee Member, Council on Aging
- Bethune Cookman University Board of Counselors
- Board Member, Daytona State College School of Technology
- Board of Directors, Spruce Creek High School Academy of Information Technology and Robotics
- Board Member, Golden Eagle Dinner Boy Scouts of America
- Board of Directors, Daytona Beach Police Foundation
- Board of Directors, Embassy of Hope Foundation
- Board of Directors, Futures Foundation for Volusia County Schools
- Board of Directors, Main St / S Atlantic Redevelopment Area Board
- Board of Directors, Warner Christian Academy School Advisory Council
- Board of Trustees, Bethune Cookman University
- Boy Scouts

- Boys and Girls Club
- Center for Business Excellence, Board Member
- Chairman Checkered Flag NASCAR-Celebrity Golf Classic
- Chairman of TransLife OPO board
- Church leadership
- Board member ACS
- Chairman, Daytona Beach Mayor's Annual Charity Golf Tournament
- Chamber of Commerce Chairman (past)
- Chamber of Commerce Executive Committee
- Civic League
- Community Partnership for Children Board Chair
- Daytona Regional Chamber of Commerce, Leadership Daytona Steering Committee
- Daytona Regional Chamber of Commerce, Volusia Technology Council
- Daytona Beach Young Professionals Group (Board Member)
- Executive Board & Chair Elect, Civic League of the Halifax Area
- Executive Board Member, Checkered Flag Committee
- Futures Board
- Girl Scouts
- Healthy Start for Volusia and Flagler County Board
- Junior Achievement, Volunteer
- Junior League of Daytona Beach (past Board Member)
- Notre Dame Club of Daytona Beach Founder and Immediate Past President
- Past Chairman, Board of Trustees, Daytona State College
- Past Chairman, Daytona/Halifax Area Chamber
- Past Chairman, Executive Board Member, Daytona Beach International Festival
- Past President, Daytona Beach Rotary
- Past President, Daytona State College Foundation
- Past President, FUTURES, Inc. for Volusia County Schools
- Past President, Junior Achievement
- Past President, March of Dimes
- Past President, Seaside Music Theatre

- Past President, United Negro College Fund
- Past President, United Way
- Past President, Volusia Manufacturers Association
- Port Orange City Council
- Rotary Club of Daytona Beach
- Rotary Club of Daytona Beach West
- Rotary Club of Port Orange-South Daytona
- Society for Human Resources Management, Member
- Stewart Marchman Act Board
- UCF Health Services Administration Advisory Committee Member
- United Way Board
- Volusia Literacy Council Immediate Past President and active Board Member
- Young Professional Group

Appendix 18a: Liability Considerations

Please include a statement acknowledging that neither the District, and Hospital, nor its advisors will be liable to you for any damages or expenses of any kind or type, unless you are the selected Respondent and then, only to the extent set forth in the definitive agreement between the District and the selected Respondent.

Please see letter with acknowledgement on following page.

HALIFAX HEALTH

DAVID J. DAVIDSON
GENERAL COUNSEL
Board Certified by The Florida Bar in Health Law

November 12, 2012

Board of Commissioners
Southeast Volusia Hospital District
c/o Community Hospital Consulting, Inc.
5801 Tennyson Parkway, Suite 550
Plano, TX 75024

Re: Liability Considerations

Dear Board Members:

This will confirm, pursuant to Question 18a of the Board's Request for Proposal, that to the full extent permitted by law, neither the Southeast Volusia Hospital District, Bert Fish Medical Center, nor their advisors shall be liable to Halifax Health for any damages or expenses of any kind or type resulting from the Request for Proposal unless Halifax Health is the selected respondent, and then only to the extent set forth in a definitive agreement between the District and Halifax Health.

Please do not hesitate to contact me should you have any questions concerning this matter.

Very truly yours,

David J. Davidson
General Counsel

303 N. CLYDE MORRIS BLVD.
DAYTONA BEACH, FL 32114
T: 386.254.4340
F: 386.254.4371

halifaxhealth.org

Audited Financial Statements: Fiscal Year 2011

HALIFAX HEALTH

Halifax Hospital Medical Center d/b/a Halifax Health

Financial Statements, Required Supplementary Information, Additional Information, and Independent Auditors' Report Year Ended September 30, 2011

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

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INDEPENDENT AUDITORS' REPORT

To the Honorable Commissioners of the Board
Halifax Hospital Medical Center d/b/a
Halifax Health
Daytona Beach, Florida

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Halifax Hospital Medical Center d/b/a Halifax Health ("Halifax") as of and for the year ended September 30, 2011, which collectively comprise Halifax's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Halifax's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Halifax Management System, Inc. (HMS) (a discrete component unit), which statements reflect total assets constituting 21% of the aggregate discretely presented component units' total assets as of September 30, 2011, and total operating revenues constituting 5% of the aggregate discretely presented component units' total operating revenues for the year then ended, and we did not audit the financial statements of Halifax's fiduciary activities as of September 30, 2011, and for the year then ended, as presented on pages 16–17.Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for HMS and Halifax's fiduciary activities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Halifax's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the aggregate discretely presented component units, and the fiduciary activities of Halifax as of September 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3–10 and the required supplementary information on pages 44–46, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Halifax's basic financial statements. The additional information on pages 47–54, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The additional information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2011, on our consideration of Halifax's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

December 12, 2011

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEAR ENDED SEPTEMBER 30, 2011

INTRODUCTION

This section of the Halifax Hospital Medical Center ("Medical Center") d/b/a Halifax Health annual financial report provides an overview of the organization and management's discussion and analysis of financial performance and results for the fiscal year ended September 30, 2011. This analysis should be read in conjunction with the accompanying basic financial statements.

The current enabling act of the Medical Center was passed by a special act of the Florida Legislature as Chapter 2003-374, Laws of Florida ("Act"), which codified all prior laws that established the Medical Center as a special taxing district, a public body corporate and politic of the State of Florida. The Medical Center was originally created in 1925 under the name Halifax Hospital District by Chapter 112.72, Laws of Florida, 1925. The Medical Center's Board of Commissioners ("Board") is empowered to levy ad valorem taxes for operating expenses, capital outlays, and other purposes. Pursuant to the Act, the Medical Center has all the powers of a body corporate, including, but not limited to, the power to establish, construct, operate and maintain such hospitals, medical facilities and healthcare facilities and services for the preservation of the public health, for the public good and for the use of the public, the power to enter into contracts, borrow money, establish for-profit and not-for-profit corporations, the power to acquire, purchase, hold, lease and convey real and personal property, and the power of eminent domain. The Medical Center's geographic territory is primarily northeastern Volusia County, Florida, including the Cities of Daytona Beach, Ormond Beach, Holly Hill, Port Orange, DeLand, DeLeon Springs, Oak Hill, Orange City, Osteen, Edgewater, New Smyrna Beach, Pierson, Seville, Debary, Deltona, Lake Helen, Palm Coast, Flagler Beach and Bunnell.

The Medical Center owns and operates three inpatient hospital facilities under one license. The main campus of the Medical Center, located in Daytona Beach, is the inpatient referral center which includes a Level II neonatal intensive care center, a Level II, state-certified trauma center offering open-heart surgery and neurosurgery, and other specialty inpatient and outpatient services. The Port Orange campus, located ten miles south of the main campus, is a community hospital providing a broad range of services to the residents of Port Orange and southeast Volusia County. The Halifax Behavioral Services ("HBS") campus, two miles north of the main campus, provides inpatient and outpatient child, adolescent and adult psychiatric services. The Medical Center is licensed by the Agency for Health Care Administration to operate with 764 beds and 33 bassinets. The licensed beds by location are set forth in the table below:

Licensed Beds by Location

Main campus	654
Port Orange campus	80
HBS campus	30
Total	764

In addition to its inpatient facilities, the Medical Center owns and operates outpatient centers in Daytona Beach, Port Orange and Ormond Beach. During fiscal year 2011, the Medical Center purchased an ambulatory surgery center known as Twin Lakes Surgery Center. See note 17 for more information regarding the purchase.

The Medical Center has established not-for-profit corporations ("component units" or "affiliates") to assist in carrying out its purpose to provide healthcare and related services to the community. The component units are legally separate organizations for which the Medical Center is financially accountable, and the nature and significance of their relationship to the Medical Center are such that exclusion would cause the Medical Center's financial statements to be misleading or incomplete**.** The component units under the Medical Center's control are:

- East Volusia Health Services, Inc. ("EVHS")
- HH Holdings, Inc. ("Holdings")
- Halifax Healthy Families Corporation d/b/a Healthy Communities ("Healthy Communities")
- Halifax Hospice, Inc. d/b/a Halifax Health Hospice of Volusia/Flagler ("Hospice")
- Halifax Management System, Inc. ("HMS")
- Halifax Medical Center Foundation, Inc. ("Foundation")
- Halifax Staffing, Inc. ("Staffing")
- Patient Business & Financial Services, Inc. ("PBFS")
- Volusia Health Ventures, Inc. d/b/a Volusia Health Network ("VHN")

EVHS, Holdings, Healthy Communities, Staffing and PBFS are considered blended component units of the Medical Center and their financial results are blended with the Medical Center in the accompanying financial statements. Hospice, HMS, Foundation, and VHN are considered discrete component units and are presented in aggregate in a separate column on the financial statements. See note 1 of the audited financial statements for a description of each component unit. The Medical Center together with all of its component units is referred to as "Halifax Health."

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report includes the independent auditors' report, management's discussion and analysis, and the basic financial statements of the Medical Center. The basic financial statements are intended to describe the net assets, results of operations, sources and uses of cash and the capital structure of the Medical Center. Fiduciary fund statements for the pension trust fund are also provided as part of the basic financial statements. The basic financial statements include notes providing detailed information for select accounts and transactions.

In addition to the aforementioned content, the annual financial report includes required supplementary information comprised of unaudited schedules of funding progress for the Halifax Insurance Subsidy and the Halifax Implicit Rate Subsidy postemployment benefit plans.

Combining statements of net assets and revenues, expenses and changes in net assets are included as additional information for the discrete component units, and schedules of net assets and revenues, expenses and changes in net assets are included as additional information for the Obligated Group.

NET ASSETS AND CHANGES IN NET ASSETS

Net assets are an indicator of the financial health of an organization. Increases in net assets over time indicate that the financial condition is improving while decreases in net assets over time signify a declining financial condition. A comparative summary of the financial condition of the Medical Center and its discrete component units is presented below.

Condensed Statements of Net Assets
(in thousands)
September 30,

	2011			2010		
	Medical Center	Discrete Component Units	Total	Medical Center	Discrete Component Units	Total
Current assets	$ 242,093	$ 52,064	$ 294,157	$ 251,660	$ 54,497	$ 306,157
Assets whose use is limited	185,157	8,714	193,871	167,412	6,024	173,436
Capital assets, net	344,382	37,140	381,522	344,677	38,671	383,348
Other noncurrent assets	53,013	5,490	58,503	37,983	1,853	39,836
Total assets and deferred outflows	$ 824,645	$ 103,408	$ 928,053	$ 801,732	$ 101,045	$ 902,777
Current liabilities	$ 72,047	$ 6,776	$ 78,823	$ 72,936	$ 4,695	$ 77,631
Long-term debt	343,185	12,043	355,228	344,521	18,073	362,594
Other noncurrent liabilities	50,365	1,669	52,034	34,390	2,845	37,235
Total liabilities	465,597	20,488	486,085	451,847	25,613	477,460
Net assets—invested in capital assets, net of related debt	62,613	23,244	85,857	53,695	20,598	74,293
Net assets—restricted	-	6,031	6,031	-	7,158	7,158
Net assets—unrestricted	296,435	53,645	350,080	296,190	47,676	343,866
Total net assets	359,048	82,920	441,968	349,885	75,432	425,317
Total net assets and liabilities	$ 824,645	$ 103,408	$ 928,053	$ 801,732	$ 101,045	$ 902,777

The statement of revenues, expenses and changes in net assets measures the annual operating success of the organization and can be used to determine whether costs have been recovered through operating revenue sources. Following is a comparative summary of the operations of the Medical Center and its discrete component units.

Condensed Statements of Changes in Net Assets
(in thousands)
Years Ended September 30,

	2011			2010		
	Medical Center	Discrete Component Units	Total	Medical Center	Discrete Component Units	Total
Operating revenue	$ 414,693	$ 55,497	$ 470,190	$ 413,360	$ 54,530	$ 467,890
Operating expenses	412,648	47,181	459,829	411,869	47,005	458,874
Income from operations	2,045	8,316	10,361	1,491	7,525	9,016
Nonoperating revenues/(expenses) and gains/(losses)	7,118	(829)	6,289	5,343	3,295	8,638
Gain on the sale of discontinued operations	-	-	-	4,756	-	4,756
Increase in net assets	$ 9,163	$ 7,487	$ 16,650	$ 11,590	$ 10,820	$ 22,410

MANAGEMENT'S DISCUSSION OF RECENT FINANCIAL PERFORMANCE

Current assets of the Medical Center decreased $9.6 million from fiscal year 2010 primarily as a result of excess cash being transferred to investments and board designated assets. A shift in payor mix led to an increase in contractual allowances against patient accounts receivable, resulting in a decrease in net patient accounts receivable of $2.8 million at the Medical Center from fiscal year 2010.

Current assets of the discrete component units decreased $2.8 million from fiscal year 2010 as a result of a reclassification of $5.8 million from current assets to assets whose use is limited at the Foundation and a decrease in an amount due from affiliate of $1.5 million at Hospice, offset by increases in the investments of Foundation from $12.9 million at September 30, 2010 to $17.3 million at September 30, 2011, as a result of investing excess cash.

The Medical Center's assets whose use is limited increased by $17.7 million from fiscal year 2010 due to transfers of excess cash to board designated assets, restricted for future capital projects.

Capital assets, net of accumulated depreciation decreased $0.3 million at the Medical Center primarily as a result of depreciation expense of $18.9 million, offset by capital acquisitions of $18.7 million.

Current liabilities of the Medical Center were relatively unchanged from September 30, 2010 to 2011. A reclassification from long-term debt was made to reflect the first principal payment due on the 2006A bonds of $1.7 million, offset by decreases of $1.6 million as a result of the timing of payments made on accounts payable and accrued liabilities.

The Medical Center's long-term debt decreased $1.3 million from September 30, 2010 to 2011 as a result of the reclassification of $1.7 million from long-term debt to current portion due on the 2006A bonds, and the amortization of other amounts included in long-term debt. At September 30, 2011, the Medical Center's outstanding bonds (Series 2006A, 2006B-1 and 2006B-2 and Series 2008) were rated BBB+ by Fitch Ratings with a stable outlook, and A- long-term rating by Standard and Poor ("S&P"). The Fitch rating is primarily based on the Medical Center's strong liquidity relative to expenses, and other factors. The decrease in the discrete component units' long-term debt of $4 million from fiscal year 2010 relates to the refunding of the HMS 1998 Series A bonds and issuance of additional debt. See note 7 for more information on long-term debt.

The change in other noncurrent liabilities is primarily due to the long-term value of the swap, which was $23.8 million at September 30, 2010 and $32.1 million at September 30, 2011. In addition, the Medical Center received $3.9 million during fiscal year 2011 that it holds on deposit for one of its component units.

The Medical Center's net assets at September 30, 2011 were $359.2 million, an increase of $9.3 million from September 30, 2010, as a result of revenue generated from patient care, other operations, and nonoperating gains. The net assets of the discrete component units increased $7.6 million as a result of revenue generated from providing patient care, other operating activities and nonoperating gains.

Operating Revenues

The increase in operating revenues of the Medical Center of $1.3 million is primarily the result of revenues from the ambulatory surgery center, offset by a decrease in ad valorem tax revenues of $8 million. The following table represents the utilization statistics for the years ended September 30, 2011 and 2010.

Medical Center & Discrete Component Unit Utilization Statistics
Years Ended September 30,

	2011	2010
Medical Center Activity:		
Admissions	23,347	24,587
Patient days	119,440	121,616
Average daily census	327	333
Total outpatient visits	304,758	290,181
Observation patient day equivalents	10,242	8,982
Other Halifax Health Activity:		
Hospice visits	204,266	215,297

The Medical Center's inpatient admissions for 2011 decreased by 1,240 admissions (5.0%) compared to 2010 while patient days for 2011 decreased by 2,176 (1.8%) compared to 2010. The decreases in admissions and patient days led to a decrease in the Medical Center's average daily census by 6 patients per day from the prior year. The decreases in inpatient volume are due to continued shifting of treatment protocols from the inpatient setting to the outpatient setting. This change is reflected in the 1,260 observation patient day equivalents increase (14%) compared to 2010.

Operating Expenses

Management of the Medical Center continues to focus on cost-containment measures. Total operating expenses of the Medical Center increased by $0.8 million from fiscal year 2010 to 2011 due to increases in salaries and benefits and supplies, offset by decreases in purchased services, depreciation expenses, ad valorem tax-related expenses and leases and rentals.

Salaries and benefits increased from $205.8 million during fiscal year 2010 to $215.6 million during fiscal year 2011 due to the staffing for the ambulatory surgery center, merit increases, and the increased cost of employee benefits.

Supplies expense increased from $75.5 million in fiscal year 2010 to $76.3 million in fiscal year 2011 as a result of the ambulatory surgery center.

Purchased services decreased $2.2 million in 2011 from $40.7 million at September 20, 2010, as the result of less reliance on outside services.

The Medical Center's depreciation and amortization expense decreased from $21.5 million in fiscal year 2010 to $19.2 million in fiscal year 2011 due to certain capital assets becoming fully depreciated.

The Medical Center also incurs expenses related to ad valorem taxes levied. These expenses include payments to Volusia County and the Cities of Daytona Beach, Ormond Beach, Holly Hill and Port Orange (tax collector and appraiser commissions, Medicaid matching funds and redevelopment taxes) and the costs of non-hospital community health services (physician services, community clinics, prescription drugs, medical supplies, etc.). Ad valorem tax-related expenses decreased from $10.5 million in fiscal year 2010 to $8.1 million in fiscal year 2011 due to the decreases in the related tax base and ad valorem taxes assessed.

Nonoperating Revenues, Expenses, Gains and Losses

Investment income for the Medical Center decreased by $4.9 million from fiscal year 2010 to fiscal year 2011 as a result of declines in market value of certain investments. Investment income for the Medical Center includes approximately $4.5 million in unrealized losses on investments at September 30, 2011.

During fiscal year 2010, it was determined that a building purchased by the Medical Center in prior years for the purpose of providing patient care was no longer suitable for that purpose. An impairment loss of approximately $5.8 million on the building was recorded during fiscal year 2010. No such impairment was recorded at the Medical Center during fiscal year 2011.

During fiscal year 2011, it was determined that a building purchased by Hospice in prior years for the purpose of providing patient care was no longer used for that purpose and management has no intentions of reopening the building for use. An impairment loss on the building of $115,000 was recognized at September 30, 2011.

Gain on the Sale of Discontinued Operations

During fiscal year 2009, the Medical Center finalized the sale of Florida Health Care Plan to Blue Cross Blue Shield of Florida. In accordance with the terms of the sale, the Medical Center recognized a net gain of approximately $4.8 million during 2010 related to a settlement payment received during fiscal year 2011. No such gains were recorded during fiscal year 2011.

KEY FINANCIAL INDICATORS

The following represents a summary of key financial indicators of the Medical Center:

Key Financial Indicators
Years Ended September 30,

	2011	2010
Total margin*	2.2 %	3.8 %
Days cash on hand	271.0	263.7
Unrestricted cash/long-term debt	111.8 %	103.8 %
Long-term debt to capitalization	44.7 %	46.2 %
Total net patient service revenue, before provision for bad debts** (in millions)	$ 478.4	$ 452.5

* Total margin calculation excludes prior year gain on the sale of discontinued operations.

** In accordance with GASB pronouncements, net patient service revenue is reported net of the provision for bad debt. Net patient service revenue before the provision for bad debt is shown to facilitate financial statement comparisons with other hospital systems reporting under the Financial Accounting Standards Board framework.

The total margin decreased to 2.2% in fiscal year 2011 due to decreases in operating revenues. The number of days cash on hand increased from 263.7 days at September 30, 2010 to 271 days at September 30, 2011 due to successful cost-containment. Unrestricted cash to long-term debt improved as a result of increases in unrestricted cash. Debt to capitalization improved as net assets increased.

COMMUNITY BENEFIT

Halifax Health provides a continuum of healthcare services to the community and is involved in numerous outreach programs that help meet the public health needs of the community. Halifax Health provided an estimated $54.2 million in net community benefits during fiscal year 2011.

RISK FACTORS

The healthcare industry is highly dependent upon a number of factors that could have a significant effect on the future operations and financial condition of the Medical Center and its component units. These factors include, but are not limited to, competition, state and federal regulatory authorities, Medicare and Medicaid laws and regulations, healthcare reform initiatives, environmental laws, advances in technology, changes in demand for healthcare services, demographic changes, and managed care contract terms and conditions.

As of the date of this report, the following known facts, decisions, or conditions may have a significant effect on the net assets or the results of operations:

- Salaries in the healthcare industry continue to be very competitive due to increased costs of attracting and retaining quality physicians, registered nurses and other healthcare professionals.

- The economic recession continues to have an impact on the ability of state and federal agencies to fund healthcare services, as well as the Medical Center's ability to support operations through investment income. In addition, the Medical Center has experienced an increase in uncompensated care (self-pay and charity patients).

- The laws and regulations governing the Medicare and Medicaid program are complex and subject to change. As such, changes to these programs could have a negative effect on the financial performance of Halifax Health. Changes to the Medicare and Medicaid programs are listed below.

    - The Florida legislature implemented measures that will result in changes to the Medicaid program and reimbursements. The State of Florida is experiencing budget shortfalls and has elected to institute changes to the Medicaid program that reduce payments and limit recipient access to certain services. The Medical Center is expecting a decrease in Medicaid reimbursements of approximately $7 million in fiscal year 2012.

    - The Medical Center will continue to benefit in 2012 from additional payments made only to disproportionate share hospitals, and those public taxing authority hospitals that assist the state in increasing the amount of matching funds received from the federal government Medicaid program. The 2012 benefit will likely be similar to that in fiscal year 2011.

- On March 30, 2010 President Barrack Obama signed the Health Care and Education Reconciliation Act of 2010 ("HCERA"). The full impact to the Medical Center cannot yet be determined, however, HCERA is intended to:

    - Cut Federal healthcare spending by reducing Medicare and Medicaid disproportionate share reimbursements, starting in 2015,

    - Improve the delivery system of healthcare by reducing and bundling reimbursements, as well as pilot programs for accountable care organizations and medical homes,

- Introduce an independent payment advisory board in 2015 which will have the authority to further reduce Medicare reimbursement rates,

- Revise the eligibility criteria for Medicaid, and

- Mandate insurance coverage for individuals and businesses, and provide subsidies for those meeting eligibility criteria.

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011
(In thousands)

ASSETS AND DEFERRED OUTFLOWS	Medical Center	Discrete Component Units	Total (Memorandum Only)
CURRENT ASSETS:			
Cash and cash equivalents	$ 33,736	$ 1,250	$ 34,986
Investments	150,766	46,668	197,434
Current assets whose use is limited — Trustee-held self-insurance funds	971	-	971
Accounts receivable — patients, net of estimated uncollectibles of $68,372 and $293, respectively	38,050	3,923	41,973
Inventories	11,092	88	11,180
Other current assets	8,449	135	8,584
Total current assets	243,064	52,064	295,128
RESTRICTED FUNDS UNDER INDENTURE AGREEMENTS FOR DEBT SERVICE	20,197	210	20,407
NONCURRENT ASSETS WHOSE USE IS LIMITED:			
Board-designated funded depreciation	163,989	-	163,989
Restricted by donor	-	5,854	5,854
Board-designated — other	-	2,650	2,650
CAPITAL ASSETS — Net	344,382	37,140	381,522
GOODWILL	6,372	-	6,372
OTHER ASSETS	14,500	5,490	19,990
DEFERRED OUTFLOW OF SWAP	32,141	-	32,141
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 824,645	$ 103,408	$ 928,053

See notes to financial statements. (Continued)

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011
(In thousands)

	Medical Center	Discrete Component Units	Total (Memorandum Only)
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Accounts payable and accrued liabilities	$ 42,377	$ 1,371	$ 43,748
Accrued payroll and personal leave time	15,778	827	16,605
Current portion of accrued self-insurance liability	5,718	-	5,718
Current portion of long-term debt	1,715	2,014	3,729
Other current liabilities	6,459	2,564	9,023
Total current liabilities	72,047	6,776	78,823
LONG-TERM DEBT — Less current portion	343,185	12,043	355,228
ACCRUED SELF-INSURANCE LIABILITY — Less current portion	7,782	-	7,782
OTHER LIABILITIES	10,442	1,669	12,111
LONG-TERM VALUE OF SWAP	32,141	-	32,141
Total liabilities	465,597	20,488	486,085
NET ASSETS:			
Invested in capital assets — net of related debt	62,613	23,244	85,857
Restricted for debt service	-	177	177
Restricted by donors — expendable	-	5,610	5,610
Restricted by donors — nonexpendable		244	244
Unrestricted	296,435	53,645	350,080
Total net assets	359,048	82,920	441,968
TOTAL LIABILITIES AND NET ASSETS	$ 824,645	$ 103,408	$ 928,053

See notes to financial statements.

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2011
(In thousands)

	Medical Center	Discrete Component Units	Total (Memorandum Only)
OPERATING REVENUES:			
Net patient service revenue — before provision for bad debt	$ 478,422	$ 45,120	$ 523,542
Provision for bad debt	(103,183)	(360)	(103,543)
Net patient service revenue	375,239	44,760	419,999
Ad valorem tax revenue	26,573	-	26,573
Other revenue	12,881	10,737	23,618
Total operating revenues	414,693	55,497	470,190
OPERATING EXPENSES:			
Salaries and benefits	215,635	23,867	239,502
Supplies	76,322	2,712	79,034
Purchased services	38,529	13,557	52,086
Depreciation and amortization	19,217	1,344	20,561
Interest	18,614	682	19,296
Ad valorem tax-related expenses	8,146	-	8,146
Leases and rentals	10,901	1,477	12,378
Other	25,284	3,542	28,826
Total operating expenses	412,648	47,181	459,829
INCOME FROM OPERATIONS	2,045	8,316	10,361
NONOPERATING REVENUES (EXPENSES) AND GAINS (LOSSES):			
Investment income (loss)	6,184	(1,610)	4,574
Donation revenue	655	951	1,606
Impairment loss on building (Note 5)	-	(115)	(115)
Nonoperating gains (losses) — net	279	(55)	224
Total nonoperating revenues (expenses) and gains (losses)	7,118	(829)	6,289
INCREASE IN NET ASSETS	9,163	7,487	16,650
NET ASSETS — Beginning of year	349,885	75,433	425,318
NET ASSETS — End of year	$ 359,048	$ 82,920	$ 441,968

See notes to financial statements.

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2011
(In thousands)

	Medical Center	Discrete Component Units	Total (Memorandum Only)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from third-party payors and patients	$ 383,706	$ 45,368	$ 429,074
Payments to employees	(215,515)	(23,925)	(239,440)
Payments to suppliers	(119,443)	(16,518)	(135,961)
Ad valorem taxes	26,573	-	26,573
Other receipts	15,388	13,544	28,932
Other payments	(51,157)	(5,167)	(56,324)
Net cash provided by operating activities	39,552	13,302	52,854
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Proceeds from donations received	655	951	1,606
Payment of interest on notes payable	(26)	(18)	(44)
Transfers and deposits (to) from component units	4,241	(4,241)	-
Purchase of ambulatory surgery center	(6,950)	-	(6,950)
Final proceeds from sale of Florida Health Care Plan	5,000	-	5,000
Other nonoperating receipts	261	2	263
Net cash provided by (used in) noncapital financing activities	3,181	(3,306)	(125)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of capital assets	(18,719)	(84)	(18,803)
Proceeds from disposal of capital assets	2,576	143	2,719
Principal paid on long-term debt	-	(18,743)	(18,743)
Proceeds from issuance of long-term debt	-	14,429	14,429
Payment of interest on long-term debt	(18,209)	(611)	(18,820)
Net cash used in capital and related financing activities	(34,352)	(4,866)	(39,218)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Realized investment income	10,655	1,300	11,955
Purchase of investments and assets whose use is limited	(50,366)	(27,490)	(77,856)
Proceeds from sales and maturities of investments and assets whose use is limited	4,693	12,419	17,112
Net cash used in investing activities	(35,018)	(13,771)	(48,789)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(26,637)	(8,641)	(35,278)
CASH AND CASH EQUIVALENTS — Beginning of year	60,373	9,891	70,264
CASH AND CASH EQUIVALENTS — End of year	$ 33,736	$ 1,250	$ 34,986

See notes to financial statements.

(Continued)

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2011
(In thousands)

	Medical Center	Discrete Component Units	Total (Memorandum Only)
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Income from operations	$ 2,045	$ 8,316	$ 10,361
Adjustments to reconcile income from operations to net cash provided by operating activities:			
Interest expense considered capital and related financing activity	18,209	664	18,873
Interest expense considered noncapital financing activity	26	18	44
Depreciation expense	18,869	1,302	20,171
Amortization of bond issue costs	348	42	390
Amortization of discount	75	-	75
Amortization of premium	(60)	-	(60)
Amortization of loss on defeased bonds	364	-	364
Unrealized loss on investments considered operating activity	-	1,625	1,625
Provision for bad debts	103,183	360	103,543
Changes in assets and liabilities:			
Accounts receivable — patients	(100,337)	(564)	(100,901)
Inventories and other current assets	(1,716)	(34)	(1,750)
Other assets	(702)	476	(226)
Accounts payable and accrued liabilities	(2,672)	(280)	(2,952)
Other liabilities	1,920	1,377	3,297
Net cash provided by operating activities	$ 39,552	$ 13,302	$ 52,854
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:			
Loss on refunding of debt	$ -	$ 512	$ 512
Property and equipment unpaid and included in accounts payable	$ 1,853	$ -	$ 1,853

See notes to financial statements. (Concluded)

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

STATEMENT OF FIDUCIARY NET ASSETS
SEPTEMBER 30, 2011
(In thousands)

ASSETS:	
Investments — at fair value:	
Cash	$ 1,444
Money market and mutual funds	153,857
Pooled, common and collective funds	15,910
Total investments — at fair value	171,211
Contribution receivable	3,394
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 174,605

See notes to financial statements.

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED SEPTEMBER 30, 2011
(In thousands)

ADDITIONS:	
Investment results:	
Depreciation in fair value of investments	$ (6,634)
Interest and dividends	3,267
Investment expenses	(302)
Net investment results	(3,669)
Employers' contributions	20,723
Total additions	17,054
DEDUCTIONS:	
Administrative expenses	56
Benefits paid directly to participants	11,476
Total deductions	11,532
INCREASE IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	5,522
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS — Beginning of year	169,083
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS — End of year	$ 174,605

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity — Halifax Hospital Medical Center ("Medical Center") d/b/a Halifax Health was created by a special act of the Legislature of the State of Florida, Chapter 2003-374, Laws of Florida, as a special taxing district, a public body corporate and politic of the State of Florida and successor to Halifax Hospital District created pursuant to Chapter 112.72, Laws of Florida, Special Acts of 1925. The Medical Center's Board of Commissioners ("Board") is empowered to levy ad valorem taxes for operating expenses, capital outlays, and other purposes.

The Medical Center, located in Daytona Beach, Florida, is a full service, accredited, acute care hospital licensed to operate 764 beds. The Medical Center owns and operates three inpatient hospital facilities under one license and several ambulatory facilities. The main campus of the Medical Center is the inpatient referral center; providing a Level II neonatal intensive care; a Level II state-certified trauma center offering open-heart surgery, neurosurgery; and other specialty inpatient and outpatient services. The Port Orange campus, located 10 miles south of the main campus, is a community hospital providing a broad range of services to the residents of Port Orange and Southeast Volusia County. The Halifax Behavioral Services campus, located two miles north of the main campus, provides child, adolescent, and adult inpatient and outpatient psychiatric services to the residents of Volusia and Flagler Counties.

As required by accounting principles generally accepted in the United States of America ("GAAP"), these financial statements represent the primary government, the Medical Center, and its component units. The component units discussed below are included because of the significance of their operational or financial relationships with the Medical Center. The Medical Center together with its component units is referred to as "Halifax Health."

Component Units — East Volusia Health Services, Inc. ("EVHS"); HH Holdings, Inc. ("Holdings"); Halifax Healthy Families Corporation d/b/a Healthy Communities ("Healthy Communities"); Halifax Hospice, Inc. d/b/a Halifax Health Hospice of Volusia/Flagler ("Hospice"); Halifax Management System, Inc. ("HMS"); Halifax Medical Center Foundation, Inc. ("Foundation"), Halifax Staffing, Inc. ("Staffing"); Patient Business & Financial Services, Inc. ("PBFS"); and Volusia Health Ventures, Inc. d/b/a Volusia Health Network ("VHN"), are legally separate organizations for which the Medical Center is financially accountable, and the nature and significance of their relationship to the Medical Center are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Accordingly, these organizations represent blended or discrete component units of the Medical Center.

Blended Component Units — EVHS, Holdings, Healthy Communities, Staffing and PBFS were established primarily to provide administrative and other services for and on behalf of the Medical Center, and the Medical Center is the sole member of each blended component unit. These entities are blended within the financial results of the Medical Center.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

EVHS is a not-for-profit corporation organized under the laws of Florida. EVHS was organized for the purpose of entering into joint-venture agreements to enhance the access and quality of patient care provided to the community.

Holdings is a not-for-profit corporation organized under the laws of Florida that was established to manage the remaining net assets that resulted from the sale of Florida Health Care Plan in 2008.

Healthy Communities is a not-for-profit corporation organized under the laws of Florida, which coordinates the delivery of education, health resources, and direct assistance to the community. The services provided by Healthy Communities include administering Healthy Kids (child health insurance program), facilitating the provision of preventive care, and providing education and other activities relating to the general welfare of all children in Volusia and Flagler counties.

PBFS is a not-for-profit corporation that operates the patient accounting services for the Medical Center and employs certain staff for this function.

Staffing is a not-for-profit corporation organized under the laws of Florida, formed for the purpose of providing individuals to staff and manage the Medical Center, its component units, and any other related entities and facilities. The Medical Center is obligated to reimburse Staffing for all costs incurred in meeting its obligations under an agreement between the parties.

Discrete Component Units — Foundation, Hospice, HMS, and VHN are reported as discrete component units. The combining financial statements of the discrete component units are shown in the additional information section following the notes to the financial statements. Separately audited financial statements for Hospice and HMS may be obtained directly from the Medical Center upon request.

The Foundation was organized in 1988 as a not-for-profit corporation under the laws of Florida. The Foundation is the exclusive fund-raising organization for the Medical Center.

Hospice was organized in 1984 as a not-for-profit corporation under the laws of Florida. Hospice provides palliative medical care and treatment to patients who have less than six months to live via three inpatient care centers and in-home hospice services. The Port Orange care center is a 16-bed inpatient care center located in the City of Port Orange. The West Volusia Care Center is an 18-bed center in Orange City. The Southeast Volusia care center is a 12-bed facility located in Edgewater.

HMS was organized in 1984 as a not-for-profit corporation under the laws of Florida. HMS owns and leases to the Medical Center two ambulatory facilities and one hospital facility purchased in 1998 from a third-party developer. Facilities located in Ormond Beach and on the Medical Center's main campus in Daytona Beach provide outpatient hospital services and medical offices. The third facility, located in Port Orange, is an 80-bed inpatient hospital.

VHN was organized in 1984 as a not-for-profit corporation under Florida Law. VHN operates a preferred provider network of physicians and hospitals in the service area and offers the network and certain related services to employers that are self-insured for health coverage of their employees.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary Fund Financial Statements — The Pension Trust Fund (the "Pension Fund"), a fiduciary fund, is used to account for net assets held in trust for the pension benefits of certain employees of Staffing and Hospice. The Pension Fund is presented separately in the fiduciary fund financial statements.

Accounting Standards — These financial statements have been prepared in accordance with the Governmental Accounting Standards Board ("GASB") codification ("GASB Cod."). The financial statements of the Medical Center and its component units have been prepared on the accrual basis of accounting.

"Total (Memorandum Only)" Columns — Total columns in the financial statements are noted "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with GAAP. Certain intercompany eliminations have not been made in the summarization of this data.

Cash and Cash Equivalents — All unrestricted highly liquid investments with maturities of three months or less when purchased are considered cash equivalents.

Investments — Investments are reported at fair value or amortized cost, if not materially different from fair value. Interest and dividends, when earned, and realized and unrealized investment gains and losses are recorded as nonoperating revenue in the statement of revenues, expenses, and changes in net assets.

Net Patient Accounts Receivable — Net patient accounts receivable are reported at estimated net realizable amounts due from patients, third-party payors, and others for services rendered. The provision for bad debts is based on management's assessment of historical and expected net collections, considering business and economic conditions, trends in health care coverage, and other collection indicators. Throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon these trends. The results of this review are then used to make any modifications to the provision for bad debts and to establish an appropriate estimated allowance for uncollectible accounts. Specific patient accounts identified as uncollectible are written off to the allowance for uncollectible accounts.

Assets Whose Use is Limited — Assets whose use is limited includes assets held for self-insurance funds, trustee-held funds for debt service reserves, Board-designated funded depreciation, and Board-designated assets set aside for other purposes.

Inventories — Inventories consist of supplies, which are stated at the lower of cost or market (on a first-in, first-out basis).

Capital Assets — Purchases of real property and equipment greater than $1,000 that have a useful life of longer than one year are capitalized at cost. The cost of replacements is capitalized in the same manner. The cost of minor equipment less than $1,000 and repairs are recorded in operating expenses.

Capital assets are reviewed and considered for impairment whenever indicators of impairment are present, such as the decline in service utility of a capital asset that is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset. Pursuant to these guidelines, management identified an impaired asset of Hospice during 2011; see note 5 for more information.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible Assets — Certain intangible assets are capitalized in accordance with GASB Cod. Sec. 1400 — Reporting Capital Assets. Generally, those intangible assets would meet the same criteria for capitalization as other capital assets; primarily, cost greater than $1,000 and a useful life of longer than one year.

Goodwill — Goodwill in the amount of $6.4 million was recorded at the Medical Center in connection with the purchase of an ambulatory surgery center during fiscal year 2011, in accordance with Accounting Standards Codification Section 805, Business Combinations. See note 17 for more information regarding the purchase.

Depreciation and Amortization — Property and equipment, excluding land and construction in progress, is depreciated on a straight-line basis over the estimated useful lives of the related assets. Estimated useful lives range from five to 20 years for land improvements, 10 to 40 years for buildings, 10 to 20 years for fixed equipment, and three to 20 years for major movable equipment. Capitalized intangible assets are amortized over their useful life, with the exception of goodwill, which is evaluated periodically for impairment.

Derivative Instruments — On June 22, 2006, the Medical Center entered into an interest rate swap agreement ("Swap"), which was amended on September 15, 2008. The Medical Center applies hedge accounting for its Swap in accordance with GASB Cod. Sec. D40 — Derivative Instrument. For effective hedging instruments, the current year change in fair value is recorded as a deferred outflow in noncurrent assets on the statement of net assets, and the fair value of the Swap is reported in noncurrent liabilities. See note 8 for more information on the Swap.

Other Assets — Bond issuance costs are included in other assets and amortized over the period the bonds are outstanding using the straight-line method, as it materially approximates the effective rate method. Amortization expense related to bond issuance costs is included in depreciation and amortization expense in the accompanying statement of revenues, expenses, and changes in net assets.

Personal Leave Time — Personal leave time, which includes holiday, sick and vacation time, that is accrued but not used at September 30, 2011, is included in accrued payroll and personal leave time in the accompanying statement of net assets.

Pension Plan — The Halifax Pension Plan (the Plan) is a cost-sharing, multiple-employer, noncontributory defined benefit pension plan that covers certain employees of the two participating employers. The Plan is accounted for in accordance with GASB Cod. Sec. Pe5 — Pension Plans — Defined Benefit. Contributions are made based on the minimum recommended contribution as determined by actuarial valuation. The Plan is considered a governmental plan exempt from Employee Retirement Income Security Act requirements based upon rulings received from the Internal Revenue Service. See note 10 for more information on the Halifax Pension Plan.

Self-Insurance — Halifax Health is self-insured for various risks of loss, including professional and general liability losses, workers' compensation claims, and employees' health claims. Estimated liabilities include a reserve for known claims and for claims that have been incurred but not reported. The noncurrent portion of estimated professional and general liability losses and workers' compensation claims have been discounted using a 4% interest rate for 2011. Estimated losses for employees' health claims are not discounted as all amounts are considered current liabilities. See note 6 for more information on self-insurance liabilities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes — The Medical Center is tax exempt under Section 115 of the Internal Revenue Code ("IRC"). With the exception of VHN, all of the component units are not-for-profit corporations described in Section 501(c)(3) of the IRC and are exempt from federal and state income taxes on related income pursuant to Section 501(a) of the IRC and Chapter 220.13 of the Florida Statutes, respectively. VHN is a taxable Florida not-for-profit corporation.

Net Assets — In accordance with GASB Cod. Sec. 2200 — Comprehensive Annual Financial Report, net assets are reported in three categories: invested in capital assets — net of related debt, restricted and unrestricted. Net assets invested in capital assets — net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of any debt issued that is attributable to the acquisition, construction, or improvement of those capital assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt.

Restricted net assets are net assets that have constraints placed on them externally by creditors, grantors, contributors or laws or regulations of other governments, or laws through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of restricted or invested in capital assets — net of related debt.

Use of Estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue and Expenses — For purposes of presentation, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenue and expenses. Peripheral or incidental transactions, such as gains and losses, donations, and investment income are reported as nonoperating revenues, expenses, gains, or losses.

Ad valorem taxes levied and received by the Medical Center are designated by law to fund the Medical Center's operating expenses, including maintenance, construction, improvements, and repairs to the Medical Center or fund other expenses in carrying out the business of the Medical Center. The Medical Center considers ad valorem tax receipts to be ongoing and central to the provision of health care services and, accordingly, classifies these funds as operating revenue.

Ad valorem taxes received by the Medical Center are based on the assessed valuation of certain taxable real and personal property at the Board-approved millage rate for the year. Gross receipts of approximately $26.6 million are included in operating revenues in the accompanying statement of revenues, expenses, and changes in net assets. Certain expenses directly attributable to the Medical Center's status as a taxing authority are classified as ad valorem tax-related expenses. These expenses, when added to the charity care and other uncompensated care provided to qualifying patients, exceed ad valorem taxes received and are considered by the Board when determining tax assessments.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Substantially all expenses, including financing costs and those expenses directly attributable to the Medical Center's status as a taxing authority, are considered by management to be ongoing and central to the provision of health care services and, therefore, are reported as operating expenses. The excess of revenue over expenses is reported as income from operations in the accompanying statement of revenues, expenses, and changes in net assets and excludes investment income, nonoperating gains, distributions to or from affiliates, and donation revenue.

When an expense is incurred for which both unrestricted and restricted net assets are available, restricted resources are applied first.

Net Patient Service Revenue — The Medical Center and Hospice serve certain patients whose medical costs are not paid at established rates. These include patients sponsored under government programs, such as Medicare and Medicaid, patients sponsored under private contractual agreements, and uninsured patients who have limited ability to pay.

Net patient service revenue is reported at estimated net realizable amounts due from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Approximately $11.2 million in amounts due to Medicare and Medicaid relating to estimated future retroactive adjustments is recorded in accounts payable and accrued liabilities.

Revenue from the Medicare and Medicaid programs accounted for approximately 48% of net patient service revenue for the year ended September 30, 2011. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Adjustments to revenue are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as changes in estimated provisions and final settlements are determined. Adjustments to revenue related to prior periods increased net patient service revenue by approximately $3.0 million for the year ended September 30, 2011.

The Medical Center and Hospice classify a patient as charity based on established policies. These policies define charity services as those services for which no payment is anticipated. When assessing a patient's ability to pay, the Medical Center utilizes percentages of the federal poverty income levels, as well as the relationship between charges and the patient's income. Hospice classifies charity patients as those whose income is at or below the federal poverty guidelines. Core services may be covered in full, or discounted based on income and a sliding scale.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net patient service revenue is reported net of charity adjustments, contractual adjustments, and provision for bad debts for the year ended September 30, 2011, as follows (in thousands):

	Medical Center	Discrete Component Units	Total (Memorandum Only)
Gross patient charges	$1,220,488	$46,099	$1,266,587
Charity adjustments	(34,549)	(715)	(35,264)
Contractual adjustments	(707,517)	(264)	(707,781)
Net patient service revenue before provision for bad debts	478,422	45,120	523,542
Provision for bad debts	(103,183)	(360)	(103,543)
Net patient service revenue	$ 375,239	$44,760	$ 419,999

New Accounting Pronouncements — On October 1, 2010, Halifax Health adopted GASB Statement No. 59 — *Financial Instruments Omnibus*. Statement 59 had no impact on the financial statements of the Medical Center or its component units.

In November 2010, the GASB issued Statement No. 61 — *The Financial Reporting Entity: Omnibus and Amendment of GASB Statements No. 14 and No. 34*, effective for periods beginning after June 15, 2012. This Statement clarifies reporting for component units and equity interest in component units. Management is evaluating the impact of Statement 61 and it is not expected to have a material effect on the financial statements.

In December 2010, the GASB issued Statement No. 62 — *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for reporting periods beginning after December 15, 2011. Management is evaluating the impact of GASB Statement No. 62 and it is not expected to have a material effect on the financial statements.

In June 2011, the GASB issued Statement No. 63 — *Financial Reporting of Deferred Outflows of resources, Deferred Inflows of Resources, and Net Pension*, effective for reporting periods beginning after December 15, 2011. Management is evaluating the impact of GASB Statement No. 63 and it is not expected to have a material effect on the financial statements.

In June 2011, the GASB issued Statement No. 64 — *Derivative Instrument: Application of Hedge Accounting Termination Provisions*, effective for reporting periods beginning after June 15, 2011. Management is evaluating the impact of GASB Statement No. 64 and it is not expected to have a material effect on the financial statements.

2. INVESTMENTS, ASSETS WHOSE USE IS LIMITED, AND RESTRICTED ASSETS

The composition of investments, assets whose use is limited and restricted assets at September 30, 2011, is set forth below (in thousands):

		Assets Whose Use is Limited and Restricted Assets					
	Investments	Trustee-Held Self-Insurance Funds	Trustee-Held Funds under Indenture Agreements for Debt Service	Board-Designated Funded Depreciation	Restricted by Donor	Board Designated Other	Total
Medical Center							
Money market funds	$ -	$ 107	$ 195	$ -	$ -	$ -	$ 302
Mutual funds	150,642	-	-	86,388	-	-	237,030
U.S. Treasury and agency obligations	-	600	-	50,128	-	-	50,728
U.S. government-sponsored enterprise obligations	-	257	-	26,868	-	-	27,125
Repurchase agreements	-	-	20,002	-	-	-	20,002
Accrued interest receivable	-	7	-	300	-	-	307
Other	124	-	-	305	-	-	429
	$ 150,766	$ 971	$ 20,197	$ 163,989	$ -	$ -	$ 335,923
Discrete Component Units							
Money market funds	$ -	$ -	$ 210	$ -	$ -	$ -	$ 210
Mutual funds	37,798	-	-	-	5,513	2,650	45,961
Common collective trust	8,555	-	-	-	-	-	8,555
Other	315	-	-	-	341	-	656
	$ 46,668	$ -	$ 210	$ -	$ 5,854	$ 2,650	$ 55,382

Assets whose use is limited for obligations classified as current liabilities are reported as current assets.

2. INVESTMENTS, ASSETS WHOSE USE IS LIMITED, AND RESTRICTED ASSETS (CONTINUED)

The Medical Center invests in money market and mutual funds that qualify as fixed income securities in accordance with its investment policy described in note 3. At September 30, 2011, the Medical Center was invested in one money market fund, the Wells Fargo Advantage Government Money Market Fund, and two mutual funds; PIMCO Moderate Duration Institutional Fund (PMDRX) and Vanguard Short-term Federal Admiral Fund (VSGDX). PMDRX is an intermediate-term bond fund. The Medical Center had approximately $65 million invested in this fund and classified as Investments at September 30, 2011. VSGDX holds short-term debt securities issued or guaranteed by the U.S. government. The Medical Center had approximately $172 million invested in this fund, of which $86 million was classified as Investments and $86 million was classified as Board-designated funded depreciation, at September 30, 2011. At that date, the Medical Center held debt securities in a U.S. Government-sponsored enterprise, Federal National Mortgage Association, of which $257 thousand is classified as Trustee-held self-insurance funds and $26.9 million is classified as Board-designated funded depreciation. At September 30, 2011, the Medical Center also held certain repurchase agreements with guaranteed rates of return between 3.0% and 4.9%, expiring in 2016. Those agreements are classified as Trustee-held funds under indenture agreements for debt service.

The discrete component units invest in mutual funds that have underlying investments in equities and debt securities. The discrete component units also invest in a common collective trust that has a two-day hold on redemptions. At September 30, 2011 management had no plans to liquidate any portion of its holdings in the common collective trust.

Investment income on assets whose use is limited, restricted assets, and investments for the year ended September 30, 2011, was $6.2 million for the Medical Center, and investment losses for the discrete component units were $1.6 million. Investment income includes unrealized losses of approximately $4.5 million for the Medical Center and $2.9 million for the discrete component units. Investment income of the Foundation includes unrealized losses of $1.6 million and is included in other operating revenue.

3. DEPOSITS AND INVESTMENT RISK

GASB Cod. Sec. I50 — *Investments*, requires disclosures related to investment and deposit risks, including risks related to credit risk, consisting of custodial credit risk and concentrations of credit risk, interest rate risk, and foreign currency risk. GASB Cod. Sec. I50 also requires the disclosure of the credit quality of investments in debt securities, except for obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government.

Investment Risk — An investment policy (the "policy") was established in order to control and diversify risk by limiting specific security types and/or concentration with individual financial institutions. Specific investment types are limited to a percentage of the total investment portfolio and maximum maturity date. Investment strategies are influenced by relative market yields and the cash needs of Halifax Health. Excess funds of the Medical Center's component units may be invested in accordance with the respective component unit's investment policy. Excess funds of the Medical Center may be invested in, but are not limited to:

- U.S. Government securities and repurchase agreements;
- U.S. Government agency obligations;

3. DEPOSITS AND INVESTMENT RISK (CONTINUED)

- Domestic Bank Certificates of Deposit provided that any such investments are in Federal Deposit Insurance Corporation guaranteed accounts or deposits collateralized by U.S. Government securities or obligations;

- Securities of, or other interests in, any management-type investment company or investment trust registered under the Investment Company Act of 1940, as amended from time to time, provided that the portfolio of such investment company or investment trust is limited to obligations of the United States Government or any agency or instrumentality thereof; and

- Repurchase agreements with reputable financial institutions, which are fully secured by U.S. Government obligations.

All investment decisions are made based on reasonable research as to credit quality, liquidity, and counterparty risk prior to the investment. An investment advisory firm is utilized to monitor the investment of all funds and performance of the portfolio is reported to management and the Investment Committee of the Board quarterly.

Deposit Risk — Deposit risk is the risk that, in the event of the failure of a depository financial institution, Halifax Health will not be able to recover its deposits. Halifax Health's deposits are covered by federal depository insurance, collateralized with U.S. Treasury Securities and Federal Agency Securities, or guaranteed 100% by the State of Florida and collateralized through the State of Florida Bureau of Collateralization. At September 30, 2011, Halifax Health's investments were not exposed to custodial credit risk.

Credit Risk — The investment policy provides guidelines to investment managers that restrict investments in debt securities to those with an A-rating or better and established asset allocation limits to reduce the concentration of credit risk. Guidelines are provided to investment managers and monitored by the investment advisory firm and management for compliance. As of September 30, 2011, Halifax Health does not have investments with a single issuer that represent 5% or more of total investments. At September 30, 2011, the money market fund at the Medical Center had a credit rating of Aaa-mf and the U.S. Government-sponsored enterprise had a credit rating of Aaa from Moody's Investors Service Inc.

Interest Rate Risk — Changes in interest rates can adversely affect the fair value of an investment. Halifax Health manages its exposure to interest rate risk by limiting investment maturities and diversifying its investment portfolios. At September 30, 2011, all investments have maturities by November 15, 2020.

3. DEPOSITS AND INVESTMENT RISK (CONTINUED)

As of September 30, 2011, the Medical Center had investments and assets whose use is limited maturing as follows (in thousands):

	Fair Value	Less Than 1 Year	1–5 Years	6–10 Years
Money market funds	$ 302	$ 302	$ -	$ -
Mutual funds	237,030	237,030	-	-
U.S. Government securities	5,260	-	2,052	3,208
U.S. Government agency securities	45,468	13,005	20,719	11,744
U.S. Government-sponsored enterprise obligations	27,125	7,003	16,566	3,556
Repurchase agreements	20,002	-	5,373	14,629
Accrued interest receivable	307	307	-	-
Other	429	429	-	-
Total	$ 335,923	$ 258,076	$ 44,710	$ 33,137

At September 30, 2011, all of the investments, restricted assets and assets whose use is limited of the discrete component units had maturity dates of less than one year.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of financial instruments:

- U.S. Government and agency securities are based on quoted market prices at September 30, 2011.
- Money market and mutual funds are based on quoted market prices at September 30, 2011.
- Common collective trusts are estimated based on the most recent information available about the holdings of the fund.
- Repurchase agreements are based on historical value plus a guaranteed rate of return.
- Long-term debt related to bonds payable is reported at historical value. The carrying value at September 30, 2011, is $359 million and the fair value at September 30, 2011, is approximately $365.4 million.
- The fair value of the Swap was approximately $32.1 million at September 30, 2011, as determined by an independent source. The determination is made based on assumptions about the interest rates, the duration of the Swap, cash flow projections, and other factors. See note 8 for more information about the Swap.

5. CAPITAL ASSETS

Capital assets are recorded at cost and presented net of accumulated depreciation in the statement of net assets. A summary of the activities for the year ended September 30, 2011, is presented below *(in thousands)*:

	Balance at September 30, 2010	Increases/ Transfers	Decreases/ Transfers	Balance at September 30, 2011
Medical Center				
Capital assets — at cost:				
Land	$ 43,328	$ -	$ 2,576	$ 40,752
Land improvements	7,308	146	-	7,454
Buildings	351,429	2,499	376	353,552
Fixed equipment	20,134	253	279	20,108
Major moveable equipment	85,852	11,826	8,513	89,165
Construction in progress	6,136	24,536	13,493	17,179
Total capital assets — at cost	514,187	39,260	25,237	528,210
Accumulated depreciation:				
Land improvements	5,804	212	-	6,016
Buildings	87,282	11,318	715	97,885
Fixed equipment	15,405	590	186	15,809
Major moveable equipment	61,019	8,066	4,967	64,118
Total accumulated depreciation	169,510	20,186	5,868	183,828
Capital assets — net	$ 344,677	$ 19,074	$ 19,369	$ 344,382
Discrete Component Units				
Capital assets — at cost:				
Land	$ 1,954	$ -	$ -	$ 1,954
Land improvements	27	-	-	27
Buildings	49,284	296	524	49,056
Fixed equipment	164	33	30	167
Major moveable equipment	1,641	122	108	1,655
Construction in progress	154	188	310	32
Total capital assets — at cost	53,224	639	972	52,891
Accumulated depreciation:				
Land improvements	9	2	-	11
Buildings	13,314	1,274	190	14,398
Fixed equipment	71	22	1	92
Major moveable equipment	1,159	116	25	1,250
Total accumulated depreciation	14,553	1,414	216	15,751
Capital assets — net	$ 38,671	$ (775)	$ 756	$ 37,140

5. CAPITAL ASSETS (CONTINUED)

Impairment — During fiscal year 2011, it was determined that a building purchased by Hospice in prior years for the purpose of providing patient care was no longer being used for that purpose and management has no intentions of reopening the building. An impairment loss on the building of approximately $115,000 was recognized at September 30, 2011, and is recorded in nonoperating revenues, expenses, gains, and losses in the accompanying statement of revenues and expenses of the discrete component units. The remaining value of the building is fully depreciated and therefore has a net book value of $0 at September 30, 2011.

6. SELF-INSURANCE AND INSURANCE

Self-Insurance — The Medical Center is self-insured for various risks of loss, including professional and general liability losses, workers' compensation claims, and employees' health claims. Certain other component units participate in the Medical Center's employee health and workers' compensation self-insurance programs. Self-insurance funds are held by a trustee bank and recorded as assets whose use is limited.

The Medical Center, as a subdivision of the State of Florida, has sovereign immunity in tort actions. Therefore, in accordance with Chapter 768.28 Laws of Florida, the Medical Center and its component units are not liable to pay a claim by or judgment to any one person which exceeds the sum of $100,000 or any claim or judgment, or portions thereof, which when totaled with all other claims or judgments paid by the state or its agencies or subdivisions arising out of the same incident or occurrence exceeds the sum of $200,000.Chapter 768.28 also provides that judgments may be claimed or rendered in excess of these limits; however, these amounts must be reported to and approved by the Florida Legislature. The limits of sovereign immunity will increase to $200,000 per claim and $300,000 in the aggregate, effective October 1, 2011, for claims arising on or after that date.

Professional and general liability losses are recorded when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Accrued self-insurance liabilities include an amount for claims that have been incurred but not reported based on actuarial determinations. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in the actual claim amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

The liabilities for employees' health insurance and workers' compensation claims are estimated based on historical data. The Medical Center has commercial insurance policies for health insurance and workers' compensation for cases that exceed certain limits. The health insurance policy includes an 80% indemnity of cases that exceed $325,000 and a $1 million lifetime maximum. Specific excess coverage for workers' compensation includes retention of $750,000 per incident.

6. SELF-INSURANCE AND INSURANCE (CONTINUED)

Changes in the accrued self-insurance liabilities are as follows (in thousands):

	Balance at September 30, 2010	Current Year Claims and Changes in Estimates	Claim Payments	Balance at September 30, 2011
Employee health claims	$ 3,120	$ 11,825	$ (11,745)	$ 3,200
Professional liability	5,430	987	(507)	5,910
Workers' compensation	3,284	2,295	(1,189)	4,390
Total	$ 11,834	$ 15,107	$ (13,441)	$ 13,500

Losses in excess of amounts accrued may occur although an estimate of such excess cannot be made. However, in management's opinion such excess should not have a material adverse effect on the financial statements.

7. LONG-TERM DEBT

Long-term debt at September 30, 2011, consists of the following (in thousands):

Medical Center

Bonds payable, Series 2006 A — net of premium of $2,053 and loss on defeased bonds of $2,815	$ 174,237
Bonds payable, Series 2006 B1 & B2 Fixed Rate Conversion — net of discount of $1,760 and loss on refunded bonds of $2,577	100,663
Bonds payable, Series 2008	70,000
Long-term debt	$ 344,900

Discrete Component Units

Bonds payable, 2010 Series — net of loss on refunding of $460	$ 12,960
Long-term notes and other indebtedness	1,097
Long-term debt	14,057
Current portion of long-term debt	2,014
Long-term debt-less current portion	$ 12,043

Bonds Payable — The Medical Center previously issued $350 million of debt to refund prior debt and to provide funding for capital projects. The debt is organized with principal balances as follows: $175 million of tax-exempt; fixed-rate bonds (Series 2006 A); $105 million of tax-exempt, insured, fixed-rate bonds (Series 2006 B); and $70 million of tax-exempt, variable-rate demand-obligation bonds (Series 2008), secured by a letter of credit. Pursuant to the terms of the Master Trust Indenture (MTI) under which the bonds were issued (excluding conduit indebtedness), principal and interest on each bond series are payable from and secured by a pledge of net revenues of the Obligated Group, which is comprised of the Medical Center and Holdings.

7. LONG-TERM DEBT (CONTINUED)

The Series 2006 A bonds carry interest rates ranging from 5.00% to 5.38% and have a maximum maturity of June 1, 2046. The net proceeds of the Series 2006 A bonds were used to advance refund outstanding indebtedness, convert a line of credit to long-term indebtedness, fund a debt service reserve fund ("DSRF"), and provide funds for capital projects.

The portion of net proceeds of the Series 2006 A bonds reserved to refund the Medical Center's previously outstanding indebtedness were deposited into an irrevocable trust with an escrow agent that provides for all future debt service payments on the advance refunded bonds. As such, the advance refunded debt is considered defeased and the liability for that debt has been removed from the accompanying financial statements. The principal amount of the Series 1999 A defeased in substance bonds of $18.6 million was paid on October 1, 2010.

The Series 2006 B bonds are fixed-rate securities insured by Assured Guarantee Municipal Corp. ("AGMC") (formerly known as Financial Security Assurance Inc., or "FSA"). The Series 2006 B bonds carry interest rates ranging from 5.38% to 5.50%. The Series 2006 B bonds have maturities extending through June 1, 2038. The net proceeds of the Series 2006 B bonds were used to fund a DSRF, to provide funds for future capital projects and for reimbursement of prior capital expenditures. The Series 2006 B bonds are bifurcated into Series 2006 B-1 and Series 2006 B-2 bonds.

The Series 2008 bonds are tax-exempt, variable-rate securities with a weekly interest-rate period. The Series 2008 bonds have final maturities of June 1, 2048. The net proceeds of the Series 2008 bonds were used to advance refund a portion of the Medical Center's outstanding indebtedness, to provide funds for future capital projects, and for reimbursement of prior capital expenditures.

The Series 2008 bonds are subject to purchase from time to time at the option of the owners thereof and are required to be purchased in certain circumstances. As such, the bonds are supported by a remarketing agreement and an irrevocable direct pay letter of credit with a bank in the aggregate amount of $70.8 million at September 30, 2011. The remarketing agreement generally provides the Medical Center the option to market the obligations at the then-prevailing short-term rate, as determined by the remarketing agent. The obligations were marketed weekly during 2011, with interest rates ranging from .05% to .33%. The term of the letter of credit expires November 17, 2015. The letter of credit is secured by an interest in any bonds purchased with draws on the letter of credit and amounts payable under the MTI. The Medical Center did not draw on the letter of credit during 2011. In the event that the Medical Center would be required to draw on the letter of credit, repayments of principal and interest would begin one year after the date of the draw, and be made in 12 equal quarterly installments. Any amounts outstanding at the termination date of the letter of credit would be due and payable at that date. Pursuant to the terms of the letter of credit, the Medical Center is required to comply with certain provisions regarding additional borrowings, capital expenditures, and the maintenance of certain financial ratios. The Medical Center was in compliance with these covenants at September 30, 2011.

The Medical Center has a $70.0 million notional amount fixed-pay percentage of the London InterBank Offered Rate ("LIBOR") interest rate swap on the Series 2008 bonds. The variable interest paid on the Series 2008 bonds is expected to correlate very closely with the rate that is received on the related Swap. The effective interest rate on the Swap is a synthetic fixed rate of interest of approximately 3.927% at September 30, 2011. See note 8 for further information on the Swap.

7. LONG-TERM DEBT (CONTINUED)

The Obligated Group is required to comply with certain provisions regarding additional borrowings and the maintenance of certain minimum debt service coverage, liquidity, and indebtedness ratios, and must maintain DSRF's to pay the principal and/or interest on the respective bond issues in the event that insufficient funding is available to satisfy current debt service requirements. The funds are held by a trustee and any amounts in excess of the requirements of the DSRF can be used to repay outstanding bonds. The Medical Center was in compliance with these covenants as of September 30, 2011.

The Medical Center issued conduit indebtedness in 1998 on behalf of HMS, and refunded that debt with the issuance of the Halifax Hospital Medical Center Health Care Facility Revenue Refunding Bonds (Halifax Management System, Inc. Project) Series 2010 bonds ("Series 2010" bonds) on December 28, 2010. The total debt issued was approximately $14.6 million and, together with the debt service reserve fund, was used to refund the HMS 1998 Series A bonds outstanding at that date. The refunding resulted in a loss of approximately $512,000 which is included in long-term debt in the accompanying statement of net assets of the discrete component units and is amortized over the life of the bonds. The Series 2010 bonds are special limited obligations of the Medical Center, payable solely from and secured by a pledge of rentals to be received from a lease agreement between the Medical Center and HMS. The bonds do not constitute a debt or pledge of the faith and credit of the Medical Center.

A summary of bond issues follows ($ in thousands):

Fixed-Rate Bonds

		Serial Bonds			Term Bonds		
Series	Date Issued\ Converted	Amount	Interest Rate	Maturity Date	Amount	Interest Rate	Maturity Date
Medical Center							
Series 2006 A	June 22, 2006	$ 38,150	5.00%–5.25%	June 1, 2021	$ 39,380	5.25 %	June 1, 2026
		-	-	-	46,600	5.00	June 1, 2038
		-	-	-	50,878	5.38	June 1, 2046
Series 2006 B1	September 18, 2008	-	-	-	70,925	5.50	June 1, 2038
Series 2006 B2	September 18, 2008	-	-	-	34,075	5.38	June 1, 2031
HMS							
Series 2010	December 28, 2010	-	-	-	14,630	2.99	June 1, 2018

Variable-Rate Bonds

Series	Date Issued	Original Issue Amount	Interest Rate Period	Interest Rate at September 30, 2011 *	Maturity Date
Medical Center					
Series 2008	September 18, 2008	$ 70,000	7 days	0.15 %	June 1, 2048

* This rate is the remarketed interest rate in effect as of September 30, 2011. The Medical Center also has a fixed-pay interest rate Swap with a notional amount of $70 million. See note 8 for more information on the interest rate Swap.

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7. LONG-TERM DEBT (CONTINUED)

Listed below are the debt service payments for the Medical Center and HMS for each of the five years ending September 30, 2012 through 2016, and in five-year increments thereafter (in thousands). The interest rate used to calculate interest on the variable rate debt was the remarketed interest rate in effect at September 30, 2011.

	2006 Series A		2006 Series B Fixed-Rate Conversion		2008 VRDO Series		HMS Series 2010 (Conduit Indebtedness)		HMS Other	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	$ 1,715	$ 9,121	$ -	$ 5,733	$ -	$ 105	$ 1,870	$ 376	$ 144	$ 68
2013	1,830	9,035	-	5,733	-	105	1,930	320	148	60
2014	1,855	8,944	-	5,733	-	105	1,990	260	157	51
2015	3,155	8,851	-	5,733	-	105	2,050	200	166	42
2016	3,205	8,685	-	5,733	-	105	2,110	138	175	33
2017–2021	26,390	40,298	-	28,665	-	525	3,470	87	307	34
2022–2026	39,380	31,736	-	28,665	-	525	-	-	-	-
2027–2031	16,185	23,781	35,815	25,016	-	525	-	-	-	-
2032–2036	20,635	19,315	46,700	14,163	-	525	-	-	-	-
2037–2041	26,405	13,548	22,485	1,895	13,955	494	-	-	-	-
2042–2046	34,245	5,716	-	-	27,165	322	-	-	-	-
2047–2051	-	-	-	-	28,880	44	-	-	-	-
	$175,000	$179,030	$105,000	$127,069	$ 70,000	$ 3,485	$ 13,420	$ 1,381	$ 1,097	$288

7. LONG-TERM DEBT (CONTINUED)

Long-Term Notes Payable and Other Indebtedness — HMS has an outstanding promissory note payable in the amount of $2.3 million to the Medical Center. The note payable is due on a level debt service basis over with an interest rate of 5.85%. The outstanding principal at September 30, 2011, was $1.1 million.

Long-term debt activity for the year ended September 30, 2011, consisted of the following (in thousands):

	Balance at September 30, 2010	Additions (Reductions) Net of Original Issue Discounts, Premium, and Loss on Refunding	Balance at September 30, 2011
Medical Center			
Series 2006 A Bonds	$ 174,025	$ 212	$ 174,237
Series 2006 B Fixed Rate Conversion	100,496	167	100,663
Series 2008	70,000	-	70,000
Total	$ 344,521	$ 379	$ 344,900
HMS			
Series 1998 A	$ 16,774	$ (16,774)	$ -
Series 2010	-	12,960	12,960
Other	1,299	(202)	1,097
Total	$ 18,073	$ (4,016)	$ 14,057

8. INTEREST RATE SWAP

In September of 2008, the Medical Center amended its fixed-pay interest rate Swap agreement with a notional amount of $70.0 million in conjunction with the issuance of the Series 2008 bonds that effectively converts the variable rate bonds to a fixed rate. Under the terms of the Swap, the Medical Center pays to the counterparty a fixed rate of interest equal to 3.837% of the remaining notional amount. In turn, the Medical Center receives a payment of variable interest equal to 67.0% of LIBOR. The termination date of this Swap agreement is June 1, 2048, which coincides with the maximum maturity of the Series 2008 bonds. Payments under the Swap agreement are insured by AGMC. For the year ended September 30, 2011, the Medical Center made approximately $2.7 million in payments under the Swap agreement to the counterparty and received approximately $92,000 in payments under the Swap agreement from the counterparty.

In accordance with GASB Cod. Sec. D40, the Medical Center applies hedge accounting for its Swap. At September 30, 2011, the fair value of the Swap liability of approximately $32.1 million was included in other long-term liabilities, with the current year change in fair value of approximately $8.3 million recorded as an increase in deferred outflows in noncurrent assets. The fair value of the Swap is determined by an independent source, based on an analysis of discounted cash flows.

8. INTEREST RATE SWAP (CONTINUED)

Interest Rate Risk — The Medical Center is exposed to interest rate risk on the Swap. As LIBOR decreases, the Medical Center's net payment on the Swap increases.

Basis Risk — The Medical Center is exposed to basis risk on the Swap because the variable-rate interest payments it receives on the Swap is based on a rate other than the interest rate the Medical Center pays on its hedged, variable rate debt, which is remarketed every seven days. As of September 30, 2011, the interest rate on the hedged variable-rate debt is .15% and 67% of LIBOR is .16%.

Termination Risk — The Medical Center or its counterparty may terminate the Swap if the other party fails to perform under the terms of the agreement. If, at the time of termination, the Swap is in a liability position, the Medical Center would be liable to the counterparty for payment equal to the liability, subject to net-settlement.

The following table summarizes the Medical Center's anticipated net cash flows from outstanding variable rate debt and the related Swap at September 30, 2011 (in thousands). The interest rates used to calculate interest on the variable rate debt and the variable portion of the Swap were the respective interest rates in effect at September 30, 2011. The rate used for the fixed-pay portion of the Swap is the actual interest rate of 3.837%.

Years Ending September 30	Principal	Interest	Net Interest on Swap	Total Interest
2012	$ -	$ 105	$ 2,574	$ 2,679
2013	-	105	2,574	2,679
2014	-	105	2,574	2,679
2015	-	105	2,574	2,679
2016	-	105	2,574	2,679
2017–2021	-	525	12,870	13,395
2022–2026	-	525	12,870	13,395
2027–2031	-	525	12,870	13,395
2032–2036	-	525	12,870	13,395
2037–2041	13,955	494	11,859	12,353
2042–2046	27,165	322	7,383	7,705
2047–2049	28,880	44	541	585
	$ 70,000	$ 3,485	$ 84,133	$ 87,618

9. SHORT-TERM DEBT

The Medical Center has a $15.0 million revolving line of credit agreement with Wells Fargo Bank, N.A. with no outstanding balance on September 30, 2011. The line of credit expires on December 31, 2011.

Hospice has a $5.0 million revolving line of credit agreement with Wells Fargo Bank, N.A. with no outstanding balance on September 30, 2011. The line of credit expires on December 31, 2011.

10. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS

Defined Benefit Pension Plan — Certain employees participate in the Halifax Pension Plan, which is a cost-sharing, multiple-employer, noncontributory defined benefit pension plan (the "Plan") with two participating employers. The Plan is treated as a single plan for the purposes of making contributions and paying pension benefits, determining whether there has been any termination of service, and applying the maximum benefit limitation. The Plan covers all eligible employees who have attained the age of 21 and have more than one year of service. Eligibility for the Plan was closed to all employees whose initial hire date or rehire date was on or after October 1, 2000. Halifax Health assumed the unfunded portion of the past service liability for employees who participated and were not vested in the prior pension benefit programs. Pension plan benefits are based on the number of years of service and the employee's highest three-year average annual compensation. The Plan is funded in accordance with accepted actuarial practices. Plan assets consist of mutual funds, common collective trusts and money market accounts.

The Plan issues stand-alone financial statements which can be obtained by contacting the Plan's sponsor, Staffing. The Plan's financial statements are prepared using the accrual basis of accounting. The contribution rate is determined on an actuarial basis and contributions are recognized when due. The minimum recommended contribution for fiscal years 2011, 2010 and 2009 was $20.7 million, $16.8 million and $14.6 million, respectively. Halifax Health contributes 100% of the minimum recommended amount each year. Benefit payments are recognized when due to the Plan participants.

The fair value of individual investments is measured on quoted market prices where available. For certain investments in common collective trusts the fair value is estimated based on the most recent information available regarding the pools holdings. The Plan had no investments in any one issuer representing 5% or more of net assets at September 30, 2011.

Defined Contribution Pension Plan — Eligible employees hired on or after October 1, 2000 may participate in a 403(b) defined contribution pension plan (the "Contribution Plan"). The Contribution Plan covers all eligible employees who have attained the age of 18 and have completed 30 days of employment. Employee contributions are matched dollar-for-dollar up to 3% of annual salary. Employees vest 20% per year of employment for employer matched funds.

Total cost of the Contribution Plan for the year ended September 30, 2011, was approximately $1.9 million and is included in salaries and benefits in the accompanying statement of revenues, expenses, and changes in net assets. Participants contributed approximately $5.1 million to the Contribution Plan for the year ended September 30, 2011.

Other Postemployment Benefits ("OPEB") — Qualified retired employees are eligible for certain postretirement benefits other than pension benefits. All employees with 10 years of benefited service as a participant in the Halifax Pension Plan or the Florida Retirement System are eligible to receive a subsidy for health insurance premiums ("Insurance Subsidy OPEB"). The Insurance Subsidy OPEB is a single-employer defined benefit plan. The participant must present, at the time of retirement, evidence of health insurance coverage, either through an insurance company or Medicare. The Insurance Subsidy OPEB is calculated based on the number of years of service and is limited to a maximum annual benefit of $1,800 per participant. The Insurance Subsidy OPEB does not issue stand-alone financial statements. It is included in the financial statements and required supplementary information of the Medical Center.

10. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The following table shows the components of the annual Insurance Subsidy OPEB cost for the year (in thousands).

ARC and Annual OPEB Cost

ARC	$ 1,274
Plus interest on net OPEB obligation	106
Less adjustment to annual required contribution	(232)
Annual OPEB cost	1,148
Contributions made	(409)
Increase in net OPEB obligation	739
Net OPEB obligation, beginning of year	2,717
Net OPEB obligation, end of year	$ 3,456

Benefits for participants are funded from contributions made by Halifax Health, on a pay-as-you-go basis. The annual Insurance Subsidy OPEB cost for fiscal year 2011 is approximately $1.1 million. The net OPEB obligation was $3.5 million as of September 30, 2011, and is included in other liabilities on the accompanying statement of net assets. The percentage of OPEB cost contributed during fiscal year 2011 was 36%. The annual cost history for the Insurance Subsidy OPEB plan is summarized below:

Year Ended September 30,	OPEB Cost	% OPEB Cost Contributed	Net OPEB Obligation
2011	$ 1,148	36 %	$ 3,456
2010	1,217	18	2,717
2009	1,217		2,421

Additional information as of the latest actuarial valuation follows.

Valuation date	October 1, 2010
Actuarial cost method	Projected unit credit
Amortization method	Level dollar amounts
Remaining amortization period	28 years, closed
Actuarial assumptions:	
Investment rate of return	4%

These actuarial assumptions are based on the presumption that the Insurance Subsidy OPEB will continue. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future.

10. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Calculations are based on the benefits provided under the terms of the substantive plan as of the valuation date and on the sharing of costs between the employer and plan members as of that date. In addition, assumptions on employee withdrawal and retirement rates were used. Mortality is assumed to follow the 1994 Group Annuity Mortality Table (sex-distinct), with projection to 2000.

Information about the funded status of the Insurance Subsidy OPEB plan for the plan year is as follows ($ in thousands):

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
October 1, 2010	$ -	$ 15,951	$ 15,951	- %	$ 56,311	28 %

Health insurance is also offered to certain retirees at the same cost as active employees, in a benefit plan called the "Implicit Rate Subsidy OPEB," a single-employer defined benefit OPEB plan. The Implicit Rate Subsidy OPEB is offered through the Halifax Health Plan, which provides medical care and prescription drug coverage to full-time employees and specified part-time employees. The Implicit Rate Subsidy OPEB does not issue stand-alone financial statements. It is included in the financial statements and required supplementary information of the Medical Center.

The following table shows the components of the annual Implicit Rate Subsidy OPEB cost for the year (in thousands):

ARC and Annual OPEB Cost	
ARC	$ 456
Plus interest on net OPEB obligation	71
Less adjustment to annual required contribution	(2)
Annual OPEB cost	525
Contributions made	(166)
Increase in net OPEB obligation	359
Net OPEB obligation, beginning of year	1,689
Net OPEB obligation, end of year	$ 2,048

Benefits for participants are funded from contributions made by Halifax Health and plan members on a pay-as-you-go basis. The cost of the plan is a blended rate of active employees and retirees. Retired employees contribute both the employee and employer rates, but do not pay a separate rate based solely on retiree costs to the plan. Therefore, this OPEB provides an implicit rate subsidy to retirees in the plan.

10. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The annual Implicit Rate Subsidy OPEB cost for fiscal year 2011 is approximately $525,000. The annual Implicit Rate Subsidy OPEB obligation was $2.0 million as of September 30, 2011, and is included in other liabilities in the accompanying statement of net assets. The percentage of Annual OPEB contributed during fiscal year 2011 is 39%. The annual cost history for the Implicit Rate Subsidy OPEB plan is summarized below:

Year Ended September 30	OPEB Cost	% OPEB cost Contributed	Net OPEB Obligation
2011	$ 525	32 %	$ 2,048
2010	817	92	1,689
2009	951	25	1,627

Additional information as of the latest actuarial valuation follows.

Valuation date	October 1, 2010
Actuarial cost method	Projected unit credit
Amortization method	Level dollar amounts
Remaining amortization period	28 years, closed
Actuarial assumptions:	
Investment rate of return	4%
Healthcare trend rate — first year	9%
Healthcare trend rate — following 10 years	5%

These actuarial assumptions are based on the presumption that the Implicit Rate Subsidy OPEB will continue. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future.

Calculations are based on the benefits provided under the terms of the substantive plan as of the valuation date and on the sharing of costs between the employer and plan members as of that date. In addition, assumptions on employee withdrawal and retirement rates were used. Mortality is assumed to follow the RP-2000 Mortality Table for active and retired males and females with mortality projection scale AA to the year of valuation.

Information about the funded status of the Implicit Rate Subsidy OPEB plan for the plan year is as follows ($ in thousands):

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
October 1, 2010	$ -	$ 4,991	$ 4,991	- %	$ 56,311	9 %

Schedules of funding progress regarding both OPEB plans are included in the required supplementary information section of the financial statements and presents information about whether the value of plan assets is increasing or decreasing over time relative to the Actuarial Accrued Liability for benefits.

11. DEFERRED GIFT ANNUITY PLAN

As part of the Foundation's planned giving program, the Foundation has established a Deferred Gift Annuity Plan (the "Annuity Plan"). Annuity Plan participants make monthly contributions to the Annuity Plan for a specified time period. Contributions are used to purchase commercial annuity contracts and life insurance policies owned by the Foundation. An asset is recorded as of September 30, 2011, in the amount of approximately $1 million that represents the cash surrender value of the life insurance policies and annuity contracts purchased. In addition, a liability is recorded as of September 30, 2011, for approximately $1.3 million which represents the present value of the annuity payments promised to the participants in the Annuity Plan by the Foundation. At September 30, 2011, the Annuity Plan had eight participants.

The Foundation had deferred benefits totaling approximately $2.3 million. This represents life insurance death benefits purchased on the lives of the participants and is contingent upon the consistent payment of premiums under the contracts.

12. CHARITABLE GIFT ANNUITIES

The Foundation has received contributions from various donors in the form of charitable gift annuities, which total approximately $995,000. In consideration of the charitable gift, the Foundation agrees to make annuity payments to the donor for the remainder of the donor's life, and a liability equal to the estimated present value of these annuity payments is recorded in other liabilities in the accompanying statement of net assets. The Foundation calculates the present value using the donors' expected life and a discount rate of 5.0%. The Foundation has also purchased annuities through various insurance companies with an approximate cost of $720,000, which provide annuity payments to the Foundation for the remainder of the donors' lives in amounts equal to those required under the charitable gift annuity agreements. A receivable equal to the estimated present value of these annuity payments is recorded in other assets in the accompanying statement of net assets. The difference between the charitable gift annuities received from each donor and the purchase of annuities with the insurance companies is included as donation revenue, at the time of the gift, in the accompanying statement of revenues, expenses, and changes in net assets.

13. COMMITMENTS AND CONTINGENCIES

Leases — Halifax Health is committed under various noncancelable operating leases. These expire in various years through 2020. Future minimum operating lease payments are as follows (in thousands):

Years Ending September 30,	
2012	$ 7,047
2013	5,794
2014	5,403
2015	4,113
2016	3,339
2017–2020	5,805
Total minimum lease payments required	$ 31,501

13. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Contingencies — In December, 2009, the Office of Inspector General (OIG), U.S. Department of Health and Human Services informed the Medical Center that it is conducting an investigation of the Medical Center concerning certain claims that were submitted to Medicare, and requested certain information concerning that investigation. The Medical Center, with the assistance of its legal counsel and consulting support submitted the requested information. The Medical Center has since learned that the OIG's request arose from a qui tam action, for which the government filed its formal complaint on November 4, 2011. The Medical Center is vigorously defending the claim. The probability of a favorable or unfavorable outcome is unknown and a range of loss, if any, cannot be estimated at this time. While the Medical Center believes its defenses are meritorious, the ultimate resolution could adversely impact the Medical Center's financial condition, results from operations, or cash flows.

Certain matters of litigation against Halifax Health arise in the normal course of business. It is the opinion of management that the ultimate liability, if any, resulting from these matters will not have a material adverse effect on Halifax Health's financial statements.

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in significant fines and penalties, including repayments for patient services previously reimbursed.

14. CONCENTRATIONS OF CREDIT RISK

The Medical Center and Hospice grant credit without collateral to its patients, most of who are local residents that are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors at September 30, 2011, was as follows:

	Medical Center	Discrete Component Units
Medicare	20 %	70 %
Medicaid	17	21
Other third-party payors	62	6
Self-pay patients	1	3
	100 %	100 %

15. RELATED-PARTY TRANSACTIONS

The Medical Center provides various supplies and services to VHN and Hospice, including accounting, purchasing, insurance and payroll processing services. These services are reimbursed at the Medical Center's cost. The Medical Center holds approximately $3.9 million on deposit from Hospice to cover the expenses it pays on Hospice's behalf.

Substantially all of the expenses of the Foundation are paid by the Medical Center and are not reimbursed by the Foundation. These expenses totaled approximately $134,000 for the year ended September 30, 2011. In addition, the Medical Center provides certain administrative services and office space to the Foundation at no charge.

15. RELATED-PARTY TRANSACTIONS (CONTINUED)

In 1998, and amended in 2010, the Medical Center entered into a 20-year master lease for office space from HMS. Total rent paid to HMS was approximately $2.8 million for the year ended September 30, 2011.

Transactions between the discrete component units and the primary government are not eliminated in the accompanying financial statements.

16. EVHS JOINT VENTURE

EVHS has a 50% equity interest in a joint-venture agreement with Atlantic East Coast Imaging to operate East Central Florida Outpatient Imaging, LLC ("ECFOI"). During the year ended September 30, 2011, EVHS received distributions of $2.4 million from ECFOI that is included in other operating revenue, and at September 30, 2011, EVHS had $1.3 million recorded as an investment in ECFOI that is included in other assets in the accompanying financial statements. ECFOI issues stand-alone financial statements.

17. PURCHASE OF AMBULATORY SURGERY CENTER

On December 31, 2010, the Medical Center purchased an ambulatory surgery center in Daytona Beach, FL. The purchase price was approximately $7 million in cash and included equipment with a fair value of $600,000. $6.4 million, the difference between the purchase price and the fair value of equipment received, is recorded as goodwill representing the expected profitability of operating the surgery center with a hospital-based cost structure and reimbursement model.

* * * * * *

REQUIRED SUPPLEMENTARY INFORMATION

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH
Halifax Insurance Subsidy OPEB

UNAUDITED SCHEDULE OF FUNDING PROGRESS
YEAR ENDED SEPTEMBER 30, 2011
($ in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) — Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
October 1, 2008	$ -	$ 14,714	$ 14,714	- %	$ 58,278	25 %
October 1, 2009	-	15,211	15,211	-	61,067	25
October 1, 2010	-	15,951	15,951	-	56,311	28

Source: Consulting Actuaries International, Inc.

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH
Halifax Implicit Rate Subsidy

UNAUDITED SCHEDULE OF FUNDING PROGRESS
YEAR ENDED SEPTEMBER 30, 2011
($ in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) — Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
October 1, 2008	$ -	$ 8,794	$ 8,794	- %	$ 58,278	15 %
October 1, 2009	-	7,739	7,739	-	61,067	13
October 1, 2010	-	4,991	4,991	-	56,311	9

Source: Consulting Actuaries International, Inc.

ADDITIONAL INFORMATION

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

COMBINING STATEMENT OF NET ASSETS — DISCRETE COMPONENT UNITS
SEPTEMBER 30, 2011
($ in thousands)

ASSETS	Halifax Hospice, Inc. d/b/a Halifax Health Hospice of Volusia/Flagler	Volusia Health Ventures, Inc. d/b/a Volusia Health Network	Halifax Medical Center Foundation, Inc.	Halifax Management System, Inc.	Total
CURRENT ASSETS:					
Cash and cash equivalents	$ 363	$ -	$ 887	$ -	$ 1,250
Investments	34,846	-	11,822	-	46,668
Accounts receivable — patients — net of estimated uncollectibles	3,901	22	-	-	3,923
Inventories	88	-	-	-	88
Other current assets	110	25	-	-	135
Total current assets	39,308	47	12,709	-	52,064
RESTRICTED FUNDS UNDER INDENTURE AGREEMENTS DEBT SERVICE	-	-	-	210	210
NONCURRENT ASSETS WHOSE USE IS LIMITED:					
Restricted by donor	-	-	5,854	-	5,854
Board designated — other	2,650	-	-	-	2,650
CAPITAL ASSETS — Net	16,035	1	-	21,104	37,140
OTHER ASSETS	3,984	-	1,344	162	5,490
TOTAL ASSETS	$ 61,977	$ 48	$ 19,907	$ 21,476	$ 103,408

(Continued)

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

COMBINING STATEMENT OF NET ASSETS — DISCRETE COMPONENT UNITS
SEPTEMBER 30, 2011
($ in thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Halifax Hospice, Inc. d/b/a Halifax Health Hospice of Volusia/Flagler	Volusia Health Ventures, Inc. d/b/a Volusia Health Network	Halifax Medical Center Foundation, Inc.	Halifax Management System, Inc.	Total
CURRENT LIABILITIES:					
Accounts payable and accrued liabilities	$ 1,287	$ 51	$ -	$ 33	$ 1,371
Accrued payroll and personal leave time	789	38	-	-	827
Current portion of long-term debt	-	-	-	2,014	2,014
Other current liabilities	13	259	-	2,292	2,564
Total current liabilities	2,089	348	-	4,339	6,776
LONG-TERM DEBT — Less current portion	-	-	-	12,043	12,043
OTHER LIABILITIES	-	-	1,669	-	1,669
Total liabilities	2,089	348	1,669	16,382	20,488
NET ASSETS (DEFICIT):					
Invested in capital assets — net of related debt	16,035	-	-	7,209	23,244
Restricted for debt service	-	-	-	177	177
Restricted by donors — expendable	-	-	5,610	-	5,610
Restricted by donors — nonexpendable	-	-	244	-	244
Unrestricted	43,853	(300)	12,384	(2,292)	53,645
Total net assets (deficit)	59,888	(300)	18,238	5,094	82,920
TOTAL LIABILITIES AND NET ASSETS	$ 61,977	$ 48	$ 19,907	$ 21,476	$ 103,408

(Concluded)

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS — DISCRETE COMPONENT UNITS
YEAR ENDED SEPTEMBER 30, 2011
($ in thousands)

	Halifax Hospice, Inc. d/b/a Halifax Health Hospice of Volusia/Flagler	Volusia Health Ventures, Inc. d/b/a Volusia Health Network	Halifax Medical Center Foundation, Inc.	Halifax Management System, Inc.	Total
OPERATING REVENUES:					
Net patient service revenue — before provision for bad debt	$45,120	$ -	$ -	$ -	$45,120
Provision for bad debt	(360)	-	-	-	(360)
Net patient service revenue	44,760	-	-	-	44,760
Other revenue	1,683	813	5,487	2,754	10,737
Total operating revenues	46,443	813	5,487	2,754	55,497
OPERATING EXPENSES:					
Salaries and benefits	23,119	635	113	-	23,867
Supplies	2,705	7	-	-	2,712
Purchased services	13,315	222	20	-	13,557
Depreciation and amortization	502	1	-	841	1,344
Interest	18	-	-	664	682
Leases and rentals	1,477	-	-	-	1,477
Other	2,641	9	892	-	3,542
Total operating expenses	43,777	874	1,025	1,505	47,181
INCOME (LOSS) FROM OPERATIONS	2,666	(61)	4,462	1,249	8,316
NONOPERATING REVENUES, EXPENSES, AND GAINS (LOSSES):					
Investment income	(1,610)	-	-	-	(1,610)
Donation revenue	951	-	-	-	951
Impairment loss on building	(115)	-	-	-	(115)
Nonoperating losses — net	(55)	-	-	-	(55)
Total nonoperating revenues, expenses, and gains (losses)	(829)	-	-	-	(829)
INCREASE (DECREASE) IN NET ASSETS	1,837	(61)	4,462	1,249	7,487
NET ASSETS (DEFICIT) AT BEGINNING OF YEAR	58,051	(239)	13,776	3,845	75,433
NET ASSETS (DEFICIT) AT END OF YEAR	$59,888	$(300)	$18,238	$5,094	$82,920

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

SCHEDULE OF NET ASSETS — OBLIGATED GROUP
SEPTEMBER 30, 2011
(In thousands)

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	$ 33,736
Investments	150,766
Current assets whose use is limited:	
Trustee-held self-insurance funds	971
Accounts receivable — patients, net of estimated uncollectibles of $68,372	38,050
Inventories	11,092
Other current assets	8,449
Total current assets	243,064
RESTRICTED FUNDS UNDER INDENTURE AGREEMENTS FOR DEBT SERVICE	20,197
NONCURRENT ASSETS WHOSE USE IS LIMITED:	
Board-designated funded depreciation	163,989
CAPITAL ASSETS — Net	344,382
GOODWILL	6,372
INVESTMENT IN AFFILIATES	77,066
OTHER ASSETS	14,500
DEFERRED OUTFLOW SWAP	32,141
TOTAL ASSETS	$ 901,711

See notes to schedules.

(Continued)

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

SCHEDULE OF NET ASSETS — OBLIGATED GROUP
SEPTEMBER 30, 2011
(In thousands)

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable and accrued liabilities	$ 42,377
Accrued payroll and personal leave time	15,778
Current portion of accrued self-insurance liability	5,718
Current portion of long-term debt	1,715
Other current liabilities	6,459
Total current liabilities	72,047
LONG-TERM DEBT — Less current portion	343,185
ACCRUED SELF-INSURANCE LIABILITY — Less current portion	7,782
OTHER LIABILITIES	10,442
LONG-TERM VALUE OF SWAP	32,141
Total liabilities	465,597
NET ASSETS:	
Invested in capital assets — net of related debt	62,613
Unrestricted	373,501
Total net assets	436,114
TOTAL LIABILITIES AND NET ASSETS	$ 901,711

See notes to schedules. (Concluded)

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS — OBLIGATED GROUP
YEAR ENDED SEPTEMBER 30, 2011
(In thousands)

OPERATING REVENUES:	
Net patient service revenue	$ 478,422
Provision for bad debt	(103,183)
Net patient service revenue — after provision for bad debt	375,239
Ad valorem taxes	26,573
Other revenue	12,881
Total operating revenues	414,693
OPERATING EXPENSES:	
Salaries and benefits	215,635
Supplies	76,322
Purchased services	38,529
Depreciation and amortization	19,217
Interest	18,614
Ad valorem tax-related expenses	8,146
Leases and rentals	10,901
Other	25,284
Total operating expenses	412,648
INCOME FROM OPERATIONS	2,045
NONOPERATING REVENUES, EXPENSES AND GAINS:	
Investment income	6,184
Donation revenue	655
Nonoperating gains	279
Income from affiliate	8,277
Total nonoperating revenues, expenses, and gains	15,395
INCREASE IN NET ASSETS	17,440
NET ASSETS — Beginning of year	418,674
NET ASSETS — End of year	$ 436,114

See notes to schedules.

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

NOTE TO SCHEDULES — OBLIGATED GROUP
YEAR ENDED SEPTEMBER 30, 2011

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Obligated Group — The Medical Center and Holdings are the only members of the Obligated Group. The Medical Center has made investments in entities which are expected to produce income, appreciation in value, or other economic benefit. These affiliates include Halifax Hospice, Inc. d/b/a Halifax Health Hospice of Volusia/Flagler, Volusia Health Ventures, Inc. d/b/a Volusia Health Network, Halifax Medical Center Foundation, Inc., and Halifax Management System, Inc. Under the provisions of the Medical Center's Master Trust Indenture ("MTI"), dated June 1, 2006, by and between the Medical Center and Wells Fargo Bank, National Association, investments in affiliates are accounted for under the equity method. The net assets invested in capital assets — net of related debt, and unrestricted net assets of the affiliates are included in investment in affiliates on the schedule of net assets and income from affiliates is separately disclosed on the schedule of revenues, expenses, and changes in net assets. In accordance with the MTI, the Obligated Group does not have ownership rights to the affiliates' donor-restricted net assets; therefore, they are excluded from investments in affiliates.

The affiliates are not members of the Obligated Group and are not required to pay operating expenses of the Obligated Group. In addition, except in the event of or to cure a default, affiliates are not required to make any payments with respect to the outstanding indebtedness of the Medical Center.

OTHER REPORT

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Commissioners of the Board
Halifax Hospital Medical Center d/b/a
Halifax Health
Daytona Beach, Florida

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of Halifax Hospital Medical Center d/b/a Halifax Health ("Halifax"), as of and for the year ended September 30, 2011, which collectively comprise Halifax's basic financial statements and have issued our report thereon dated December 12, 2011. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Halifax Management Systems, Inc. (a discrete component unit) and the fiduciary activities of Halifax, presented on pages 16–17, as described in our report on Halifax's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

Management of Halifax is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Halifax's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Halifax's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Halifax's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Halifax's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Halifax in a separate letter dated December 12, 2011.

This report is intended solely for the information and use of the Board of Commissioners, Audit Committee, management, and Auditor General, State of Florida, and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte & Touche LLP

December 12, 2011

Audited Financial Statements: Fiscal Year 2010

HALIFAX HEALTH

Halifax Hospital Medical Center d/b/a Halifax Health

Financial Statements, Required Supplementary Information, Additional Information, and Independent Auditors' Report Year Ended September 30, 2010

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

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INDEPENDENT AUDITORS' REPORT

To the Honorable Commissioners of the Board
Halifax Hospital Medical Center d/b/a
Halifax Health
Daytona Beach, Florida

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Halifax Hospital Medical Center d/b/a Halifax Health ("Halifax") as of and for the year ended September 30, 2010, which collectively comprise Halifax's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Halifax's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Halifax Management System, Inc. (HMS) (a discrete component unit), which statements reflect total assets constituting 24.7% of the aggregate discretely presented component units' total assets as of September 30, 2010, and total operating revenues constituting 4.8% of the aggregate discretely presented component units' total operating revenues for the year then ended, and we did not audit the financial statements of Halifax's fiduciary activities as of September 30, 2010, and for the year then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for HMS and Halifax's fiduciary activities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Halifax's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

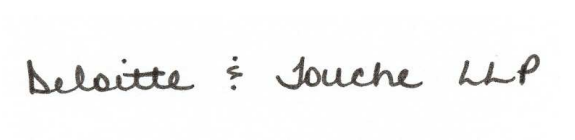
In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the aggregate discretely presented component units, and the fiduciary activities of Halifax as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the financial statements, on October 1, 2009, Halifax adopted the Governmental Accounting Standards Board Codification Section D40 – *Derivative Instruments*.

The management's discussion and analysis on pages 3–10 and the required supplementary information on pages 43-45, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of Halifax's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Halifax's basic financial statements. The additional information on pages 46-53, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of Halifax's management. The additional information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2011, on our consideration of Halifax's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



January 10, 2011

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEAR ENDED SEPTEMBER 30, 2010

INTRODUCTION

This section of the Halifax Hospital Medical Center ("Medical Center") d/b/a Halifax Health annual financial report provides an overview of Halifax Health and management's discussion and analysis of the organization for the fiscal year ended September 30, 2010. This analysis should be read in conjunction with the accompanying basic financial statements.

The current enabling act of the Medical Center was passed by a special act of the Florida Legislature as Chapter 2003-374, Laws of Florida ("Act"), which codified all prior laws that established the Medical Center as a special taxing district, a public body corporate and politic of the State of Florida. The Medical Center was originally created in 1925 under the name Halifax Hospital District by Chapter 112.72, Laws of Florida, 1925. The Medical Center's Board of Commissioners ("Board") is empowered to levy ad valorem taxes for operating expenses, capital outlays, and other purposes. Pursuant to the Act, the Medical Center has all the powers of a body corporate, including, but not limited to, the power to establish, construct, operate and maintain such hospitals, medical facilities and healthcare facilities and services for the preservation of the public health, for the public good and for the use of the public of the Medical Center, the power to enter into contracts, borrow money, establish for-profit and not-for-profit corporations, the power to acquire, purchase, hold, lease and convey real and personal property, and the power of eminent domain. The Medical Center's geographic territory is northeastern Volusia County, Florida, including the Cities of Daytona Beach, Ormond Beach, Holly Hill, Port Orange, DeLand, DeLeon Springs, Oak Hill, Orange City, Osteen, Edgewater, New Smyrna Beach, Pierson, Seville, Debary, Deltona, Lake Helen, Palm Coast, Flagler Beach and Bunnell.

The Medical Center owns and operates three inpatient hospital facilities under one license. The main campus of the Medical Center, located in Daytona Beach, is the inpatient referral center, a Level II neonatal intensive care center, a Level II, state-certified, trauma center offering open-heart surgery and neurosurgery, and other specialty inpatient and outpatient services. The Port Orange campus, located ten miles south of the main campus, is a community hospital providing a broad range of services to the residents of Port Orange and southeast Volusia County. The Halifax Behavioral Services ("HBS") campus (two miles north of the main campus) provides inpatient and outpatient child, adolescent and adult psychiatric services. The Medical Center is licensed by the Agency for Health Care Administration to operate with 764 beds and 33 bassinets. The licensed beds by location are set forth in the table below:

Licensed Beds by Location

Main campus	654
Port Orange campus	80
HBS campus	30
Total	764

In addition to its inpatient facilities, the Medical Center operates outpatient centers in Daytona Beach, Port Orange and Ormond Beach.

The Medical Center has established not-for-profit corporations ("component units" or "affiliates") to assist in carrying out its purpose to provide healthcare and related services to the community. The component units are legally separate organizations for which the Medical Center is financially accountable, and the nature and significance of their relationship to the Medical Center are such that exclusion would cause the Medical Center's financial statements to be misleading or incomplete**.** The component units under the Medical Center's control are:

- East Volusia Health Services, Inc. ("EVHS")
- HH Holdings, Inc. ("Holdings")
- Halifax Healthy Families Corporation d/b/a Healthy Communities ("Healthy Communities")
- Halifax Hospice, Inc. d/b/a Hospice of Volusia/Flagler ("Hospice")
- Halifax Management System, Inc. ("HMS")
- Halifax Medical Center Foundation, Inc. ("Foundation")
- Halifax Staffing, Inc. ("Staffing")
- Patient Business & Financial Services, Inc. ("PBFS")
- Volusia Health Ventures, Inc. d/b/a Volusia Health Network ("VHN")

EVHS, Holdings, Healthy Communities, PBFS and Staffing are considered blended component units of the Medical Center and their financial results are blended with the Medical Center in the accompanying financial statements. Hospice, HMS, Foundation, and VHN are considered discrete component units and are presented in aggregate in a separate column on the financial statements. See note 1 of the audited financial statements for a description of each component unit.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report includes the independent auditors' report, management's discussion and analysis, and the basic financial statements of the Medical Center. The basic financial statements are intended to describe the net assets, results of operations, sources and uses of cash and the capital structure of the Medical Center. Fiduciary fund statements for the pension trust fund are also provided as part of the basic financial statements. The basic financial statements include notes providing detailed information for select accounts and transactions.

In addition to the aforementioned content, the annual financial report includes required supplementary information comprised of unaudited schedules of funding progress for the Halifax Insurance Subsidy and the Halifax Implicit Rate Subsidy Other Postemployment Benefit Plans.

Combining statements of net assets and revenues, expenses and changes in net assets are included as additional information for the discrete component units, and schedules of net assets and revenues, expenses, and changes in net assets are included as additional information for the Obligated Group.

NET ASSETS AND CHANGES IN NET ASSETS

Net assets are an indicator of the financial health of an organization. Increases in net assets over time indicate that the financial condition is improving while decreases in net assets over time signify a declining financial condition. A summary of the financial condition of the Medical Center and its discrete component units is presented below.

Condensed Statements of Net Assets
(in thousands)
September 30,

	2010			2009		
	Medical Center	Discrete Component Units	Total	Medical Center	Discrete Component Units	Total
Current assets	$ 251,660	$ 54,497	$ 306,157	$ 244,743	$ 46,954	$ 291,697
Assets whose use is limited	167,412	6,024	173,436	149,241	5,936	155,177
Capital assets, net	344,677	38,671	383,348	359,113	39,585	398,698
Other noncurrent assets	37,983	1,853	39,836	20,789	2,112	22,901
Total assets	$ 801,732	$ 101,045	$ 902,777	$ 773,886	$ 94,587	$ 868,473
Current liabilities	$ 72,936	$ 4,695	$ 77,631	$ 82,303	$ 7,110	$ 89,413
Long-term debt - including current portion	344,521	18,073	362,594	344,289	19,733	364,022
Noncurrent liabilities	34,390	2,845	37,235	25,657	3,132	28,789
Total liabilities	451,847	25,613	477,460	452,249	29,975	482,224
Net assets—invested in capital assets-net of related debt	53,695	20,598	74,293	92,093	19,729	111,822
Net assets—restricted	-	7,158	7,158	-	7,480	7,480
Net assets—unrestricted	296,190	47,676	343,866	229,544	37,403	266,947
Total net assets	349,885	75,432	425,317	321,637	64,612	386,249
Total net assets and liabilities	$ 801,732	$ 101,045	$ 902,777	$ 773,886	$ 94,587	$ 868,473

The statement of revenues, expenses and changes in net assets measures the annual operating success of the organization and can be used to determine whether costs have been recovered through net patient service revenue, ad valorem taxes and other revenue sources. Following is a summary of the operations of the Medical Center and its discrete component units.

Condensed Statements of Changes in Net Assets
(in thousands)
Years Ended September 30,

	2010			2009		
	Medical Center	Discrete Component Units	Total	Medical Center	Discrete Component Units	Total
Operating revenue	$ 413,360	$ 54,530	$ 467,890	$ 509,912	$ 55,237	$ 565,149
Operating expenses	411,869	47,005	458,874	497,073	52,036	549,109
Income from operations	1,491	7,525	9,016	12,839	3,201	16,040
Nonoperating revenues/(expenses) and gains/(losses)	5,343	3,295	8,638	(2,665)	2,883	218
Gain on the sale of discontinued operations	4,756	-	4,756	42,564	-	42,564
Increase in net assets	$ 11,590	$ 10,820	$ 22,410	$ 52,738	$ 6,084	$ 58,822

MANAGEMENT'S DISCUSSION OF RECENT FINANCIAL PERFORMANCE

Current assets of the Medical Center increased $6.9 million, net, due to the changes in cash, investments, accounts receivable, and other current assets. Cash and investments of the Medical Center increased $7.6 million from fiscal year 2009 as a result of changes in the investment policy, which allowed for a more diverse investment allocation, and the related increase of investment income. Decreases in patient volumes led to a decrease of $3.9 million in accounts receivable at the Medical Center from fiscal year 2009. Other current assets increased $3.0 million due to the reclassification of a noncurrent receivable from the sale of Florida Health Care Plan ("FHCP") in fiscal year 2009, to a current receivable at September 30, 2010.

Current assets of the discrete component units increased $7.5 million from fiscal year 2009 primarily as a result of changes in the cash, investments and other assets of Hospice. Cash and investments of Hospice increased from $32.1 million in 2009 to $35.6 million at September 30, 2010 as a result of changes in the investment policy, which allowed for a more diverse investment allocation, and the related increase in investment income. Hospice also has $1.5 million due from affiliate at September 30, 2010 included in current assets; there was no due from affiliate at September 30, 2009. In addition, investments at the Foundation increased from $10.2 million at September 30, 2009 to $12.9 million at September 30, 2010, as a result of investing excess cash.

The Medical Center's assets whose use is limited increased by $18.1 million from fiscal year 2009 due to transfers of $42.0 million of excess cash to board designated assets, restricted for future capital projects; offset by reclassifying remaining trustee-held funds of $23.9 million to cash and investments.

Capital assets, net of accumulated depreciation, decreased $14.4 million at the Medical Center due to depreciation expense of $21.1 million and the impairment of a building totaling $5.8 million, offset by net capital acquisitions of $15.5 million. See note 5 for more information regarding the building impairment.

The Medical Center's other noncurrent assets increased $17.2 million primarily due to the adoption of the Governmental Accounting Standards Board ("GASB") Codification Section ("Cod. Sec.") D40 – *Derivative Instruments,* on October 1, 2009, which resulted in an increase of $16.7 million in other noncurrent assets at that date. In accordance with Cod. Sec. D40, decreases in the fair value of an effective hedging instrument are recorded as deferred outflows in noncurrent assets on the statement of net assets. At September 30, 2010 $23.8 million related to the change in fair value of the swap was recorded as a deferred outflow. See note 1 – *Change in Accounting* for more information. This increase was offset by the reclassification of a $5 million receivable from the sale of FHCP from noncurrent assets at September 30, 2009 to current assets at September 30, 2010.

Current liabilities of the Medical Center decreased by $9.4 million at September 30, 2010 compared to September 30, 2009 primarily as a result of changes in accrued payroll and personal leave, current portion of self-insurance liability and due to affiliates. Accrued payroll and personal leave decreased $5.9 million due to the timing of the last pay period of the fiscal year, as well as a result of changes to the personal leave policy, which requires employees to take a minimum 90% of their current year accrued personal leave time or forfeit the deficiency thereof. Current portion of self-insurance liability decreased $400,000 from fiscal year 2009 as a result of overall decreases in the self-insurance liability. Amount due to affiliate was $1.5 million at September 30, 2010; there was no due to affiliate at September 30, 2009.

Current liabilities of the discrete component units decreased by $2.3 million primarily as a result of the payoff of Hospice's short-term note payable during 2010; there was a balance of $1.9 million at September 30, 2009.

The Medical Center's long-term debt was relatively unchanged from September 30, 2009 to 2010 as scheduled principal repayments have not yet begun. At September 30, 2010, the Medical Center's outstanding bonds (Series 2006A, 2006B-1 and 2006B-2 and Series 2008) were rated BBB+ by Fitch Ratings and A- by Standard and Poor ("S&P"), with a stable outlook from both rating agencies. The ratings are based on the Medical Center's strong liquidity relative to expenses. The decrease in the discrete component units' long-term debt, including current portion, of $1.7 million from fiscal year 2009 represents the schedule principal payment on the HMS long-term debt. See note 7 for more information on long-term debt.

The Medical Center's net assets at September 30, 2010 were $349.9 million, an increase of $28.3 million from September 30, 2009. The increase in net assets was primarily the result of the adoption of GASB Cod. Sec. D40 that resulted in an adjustment to the balance of net assets at October 1, 2009 of $16.7 million for the cumulative effect of the change in accounting. See note 1 – *Change in Accounting* for more information. The remaining increase of $11.6 million was the result of revenue generated from patient care, net nonoperating gains and the gain on the sale of discontinued operations. The net assets of the discrete component units increased $10.8 million as a result of revenue generated from providing patient care and other operating activities and net nonoperating gains.

Operating Revenues

The decrease in operating revenues of the Medical Center of $96.5 million is primarily due to $81.3 million of revenues from discontinued operations that were included in operating revenue as of September 30, 2009, related to the sale of FHCP. Net patient service revenue of the Medical Center decreased $7.9 million from fiscal year 2009 due to lower volumes and shifts in payor mix. The following table represents the utilization statistics for the years ended September 30, 2010 and 2009, respectively.

Medical Center & Discrete Component Unit Utilization Statistics
Years Ended September 30,

	2010	2009
Medical Center Activity:		
Admissions	24,587	26,650
Patient days	121,616	132,732
Average daily census	333	364
Total outpatient visits	290,181	306,312
Observation patient day equivalents	8,982	6,875
Other Halifax Health Activity:		
Hospice visits	215,297	215,092

The Medical Center's inpatient admissions for 2010 decreased by 2,063 admissions (7.7%) compared to 2009 while patient days for 2010 decreased by 11,116 (8.4%) compared to 2009. The decreases in admissions and patient days led to a decrease in the Medical Center's average daily census by 31 patients per day from the prior year. The decreases in inpatient volume are due to continued shifting of treatment protocols from the inpatient setting to the outpatient setting. This change is reflected in the 2,107 observation patient day equivalent increase (31%) compared to 2009. Total outpatient volume at the Medical Center decreased by 5.3% compared to the prior-year.

The Medical Center's other operating revenue decreased by $7.3 million from September 30, 2009, due to the decreased tax base related to ad valorem tax assessments.

Operating Expenses

Management of the Medical Center continues to focus on cost-containment measures. Total operating expenses of the Medical Center decreased by $85.2 million from fiscal year 2009 to 2010, primarily as a result of $77.0 million of expenses from discontinued operations related to the sale of Florida Health Care Plan included in operating expenses as of September 30, 2009.

Salaries and benefits decreased from $223.0 million in fiscal year 2009 to $205.8 million during fiscal year 2010 due to the Medical Center's ability to flex staffing downward in response to the decreased volume of patients being treated.

Supplies expense decreased from $80.4 million in fiscal year 2009 to $75.5 million in fiscal year 2010 as a result of the Medical Center's continued participation in the governmental 340b pharmaceutical pricing program. The Medical Center also participates in a group purchasing organization and utilizes state contracts to obtain the best pricing available.

The Medical Center's depreciation and amortization expense increased from $14.4 million in fiscal year 2009 to $21.5 in fiscal year 2010. This increase is related to the depreciation of newly constructed buildings and equipment.

Interest expense at the Medical Center increased from $11.0 million in fiscal year 2009 to $18.4 million in fiscal year 2010, as approximately $7 million of interest cost was capitalized during 2009, related to construction in progress.

The Medical Center also incurs expenses related to its ad valorem taxes. These expenses include payments to Volusia County and the Cities of Daytona Beach, Ormond Beach, Holly Hill and Port Orange (tax collector and appraiser commissions, Medicaid matching funds and redevelopment taxes) and the costs of non-hospital community health services (physician services, community clinics, prescription drugs, medical supplies, etc.). Ad valorem tax related expenses decreased from $12.7 million in fiscal year 2009 to $10.5 million in fiscal year 2010 due to the decrease in the related tax base.

Operating expenses of the discrete component units decreased $5.0 million from September 30, 2009 to September 30, 2010, which was primarily the result of the Foundation's decreased program expenses.

Nonoperating Revenues, Expense, Gains and Losses

Investment income for the Medical Center increased by $7.4 million from fiscal year 2009 to fiscal year 2010 as a result of escalating performance on investment portfolios. Investment income for the Medical Center includes approximately $6.0 million in unrealized gains on investments at September 30, 2010.

The change in fair value of the swap is not included on the statement of revenues and expenses as of September 30, 2010, due to the adoption of GASB Cod. Sec. D40. In 2009, $7.4 million, due to the change in fair value of the swap, was included in nonoperating gains and losses. See note 1 – *Change in Accounting* for more information.

During fiscal year 2010, it was determined that a building purchased in prior years for the purpose of providing patient care was no longer suitable for that purpose. An impairment loss on the building of $5.8 million was recognized at September 30, 2010.

Gain on the Sale of Discontinued Operations (Prior year sale of FHCP)

During fiscal year 2009, the Medical Center finalized the sale of FHCP to Blue Cross Blue Shield of Florida. In accordance with the terms of the sale, the Medical Center received a settlement payment during the current year that resulted in a net gain of approximately $4.8 million during the current year. See note 17 for more information.

KEY FINANCIAL INDICATORS

The following represents a summary of key financial indicators of the Medical Center and its discrete component units:

Key Financial Indicators
Years Ended September 30,

	2010	2009
Total margin*	3.8 %	3.3 %
Days cash on hand	263.7	218.7
Unrestricted cash/long-term debt	103.8 %	89.7 %
Long-term debt to capitalization	46.2 %	49.0 %
Total net patient service revenue, before provision for bad debts** (in millions)	$ 498.0	$ 509.5

* Total margin calculated excluding income from discontinued operations, gain on the sale of discontinued operations, and the change in fair value of the swap.

** In accordance with GASB pronouncements, net patient service revenue is reported net of the provision for bad debt. Net patient service revenue before the provision for bad debt is shown to facilitate financial statement comparisons of Halifax with other hospital systems reporting under the Financial Accounting Standards Board framework.

The total margin increased to 3.8% in fiscal year 2010 and the number of days cash on hand increased from 218.7 days at September 30, 2009 to 263.7 days at September 30, 2010 due to successful cost-containment. Unrestricted cash to long-term debt improved as a result of increases in unrestricted cash. Debt to capitalization improved as working capital improved.

COMMUNITY BENEFIT

Halifax Health provides a continuum of healthcare services to the community through its operations and that of its component units. Halifax Health is also involved in numerous outreach programs that help meet the public health needs of the community. Halifax Health provided an estimated $49 million in net community benefits during fiscal year 2010.

RISK FACTORS

The healthcare industry is highly dependent upon a number of factors that could have a significant effect on the future operations and financial condition of the Medical Center and Halifax Health. These factors include, but are not limited to, competition, state and federal regulatory authorities, Medicare and Medicaid laws and regulations, healthcare reform initiatives, environmental laws, advances in technology, changes in demand for healthcare services, demographic changes, and managed care contract terms and conditions.

As of the date of this report, there are no known facts, decisions, or conditions that are expected to have a significant effect on the net assets or the results of operations, other than the following:

- Salaries in the healthcare industry continue to be very competitive due to increased costs of attracting and retaining quality physicians, registered nurses and other healthcare professionals.

- The economic recession continues to have an impact on the ability of state and federal agencies to fund healthcare services. In addition, the Medical Center has experienced an increase in uncompensated care (self-pay and charity patients).

- The laws and regulations governing the Medicare and Medicaid program are complex and subject to change. As such, changes to these programs could have a negative effect on the financial performance of Halifax Health. Several changes to the Medicare and Medicaid programs are listed below.

    - The Florida legislature passed measures that will result in changes to the Medicaid program. The State of Florida is experiencing budget shortfalls and has elected to institute changes to the Medicaid program that reduce payments and limit recipient access to certain services. The potential impact to the Medical Center is reduced reimbursement and patient volumes.

    - The Medical Center will continue to benefit in 2011 from additional payments made only to disproportionate share hospitals, and those public taxing authority hospitals that assist the state in increasing the amount of matching funds received from the federal government Medicaid program. The benefit will likely be similar to that in fiscal year 2010.

- On March 30, 2010 President Barrack Obama signed the Health Care and Education Reconciliation Act of 2010 (”HCERA”). The impact to the Medical Center is currently unknown, however, HCERA is intended to:

    - Cut Federal healthcare spending by reducing Medicare and Medicaid disproportionate share reimbursements, starting in 2015,

    - Improve the delivery system of healthcare by reducing and bundling reimbursements, as well as pilot programs for accountable care organizations and medical homes,

    - Introduce an independent payment advisory board in 2015 which will have the authority to further reduce Medicare reimbursement rates,

    - Revise the eligibility criteria for Medicaid,

    - Mandate insurance coverage for individuals and businesses, and provide subsidies for those meeting eligibility criteria.

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010
(In thousands)

	Medical Center	Discrete Component Units	Total (Memorandum Only)
Assets			
Current assets:			
Cash and cash equivalents	$ 60,373	$ 9,891	$ 70,264
Investments	127,311	39,190	166,501
Current assets whose use is limited:			
Trustee-held self-insurance funds	1,790	-	1,790
Accounts receivable — patients — net of estimated uncollectibles of $54,312 and $692, respectively	40,896	3,720	44,616
Inventories	10,798	69	10,867
Other current assets	12,282	1,627	13,909
Total current assets	253,450	54,497	307,947
Restricted funds under indenture agreements for debt service	20,331	2,653	22,984
Noncurrent assets whose use is limited:			
Board-designated funded depreciation	145,291	-	145,291
Endowment funds	-	720	720
Board-designated — other	-	2,651	2,651
Capital assets — net	344,677	38,671	383,348
Other assets	14,144	1,853	15,997
Deferred outflow of swap	23,839	-	23,839
Total assets	$ 801,732	$ 101,045	$ 902,777

See notes to financial statements. (Continued)

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010
(In thousands)

	Medical Center	Discrete Component Units	Total (Memorandum Only)
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities	$ 43,316	$ 2,033	$ 45,349
Accrued payroll and personal leave time	15,658	886	16,544
Current portion of accrued self-insurance liability	6,514	-	6,514
Current portion of long-term debt	-	132	132
Other current liabilities	7,448	1,776	9,224
Total current liabilities	72,936	4,827	77,763
Current portion of long-term debt payable from restricted funds under indenture agreements for debt service	-	1,755	1,755
Long-term debt — less current portion	344,521	16,186	360,707
Accrued self-insurance liability — less current portion	5,320	-	5,320
Other liabilities	5,231	2,845	8,076
Long-term value of swap	23,839	-	23,839
Total liabilities	451,847	25,613	477,460
Net assets:			
Invested in capital assets — net of related debt	53,695	20,598	74,293
Restricted for debt service	-	1,090	1,090
Restricted by donors	-	6,068	6,068
Unrestricted	296,190	47,676	343,866
Total net assets	349,885	75,432	425,317
Total liabilities and net assets	$ 801,732	$ 101,045	$ 902,777

See notes to financial statements.

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2010
(In thousands)

	Medical Center	Discrete Component Units	Total (Memorandum Only)
Operating revenues:			
Net patient service revenue — before provision for bad debt	$ 452,509	$ 45,469	$ 497,978
Provision for bad debt	(86,407)	(276)	(86,683)
Net patient service revenue	366,102	45,193	411,295
Ad valorem taxes	34,560	-	34,560
Other revenue	12,698	9,337	22,035
Total operating revenues	413,360	54,530	467,890
Operating expenses:			
Salaries and benefits	205,846	23,541	229,387
Supplies	75,461	2,804	78,265
Purchased services	40,731	12,790	53,521
Depreciation and amortization	21,543	1,557	23,100
Interest	18,425	1,030	19,455
Ad valorem tax-related expenses	10,538	-	10,538
Leases and rentals	12,779	1,763	14,542
Other	26,546	3,520	30,066
Total operating expenses	411,869	47,005	458,874
Income from operations	1,491	7,525	9,016
Nonoperating revenues, expenses, and gains (losses):			
Investment income	11,100	2,466	13,566
Impairment loss on building (note 5)	(5,792)	-	(5,792)
Donation revenue	149	1,192	1,341
Nonoperating losses — net	(114)	-	(114)
Net restricted donations in excess of designated expenditures	-	(363)	(363)
Total nonoperating revenues, expenses, and gains	5,343	3,295	8,638
Gain on the sale of discontinued operations	4,756	-	4,756
Increase in net assets	11,590	10,820	22,410
Net assets — beginning of year	321,637	64,612	386,249
Cumulative effect of change in accounting (note 1)	16,658	-	16,658
Net assets — beginning of year — as adjusted	338,295	64,612	402,907
Net assets — end of year	$ 349,885	$ 75,432	$ 425,317

See notes to financial statements.

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2010
(In thousands)

	Medical Center	Discrete Component Units	Total (Memorandum Only)
Cash flows from operating activities:			
Receipts from third-party payors and patients	$ 371,172	$ 45,098	$ 416,270
Payments to employees	(214,921)	(23,536)	(238,457)
Payments to suppliers	(116,746)	(16,720)	(133,466)
Ad valorem taxes	34,560	-	34,560
Other receipts	12,359	9,306	21,665
Other payments	(41,299)	(7,098)	(48,397)
Net cash provided by operating activities	45,125	7,050	52,175
Cash flows from noncapital financing activities:			
Proceeds from donations received	149	1,192	1,341
Payment of notes payable	-	(1,980)	(1,980)
Payment of interest on notes payable	(115)	(26)	(141)
Transfer (to) from component units	(216)	216	-
Proceeds from the sale of discontinued operations	3,328	-	3,328
Net restricted expenditures in excess of restricted donations	-	(300)	(300)
Nonoperating losses	(206)	-	(206)
Net cash provided by (used in) noncapital financing activities	2,940	(898)	2,042
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(17,212)	(551)	(17,763)
Proceeds from disposal of capital assets	1,862	-	1,862
Principal paid on long-term debt	-	(1,827)	(1,827)
Payment of interest on long-term debt	(18,078)	(1,004)	(19,082)
Net cash used in capital and related financing activities	(33,428)	(3,382)	(36,810)
Cash flows from investing activities:			
Investment income — net	5,150	827	5,977
Purchase of investments and assets whose use is limited	(236,109)	(40,155)	(276,264)
Proceeds from sales and maturities of investments and assets whose use is limited	100,197	36,624	136,821
Net cash used in investing activities	(130,762)	(2,704)	(133,466)
Net (decrease) increase in cash and cash equivalents	(116,125)	66	(116,059)
Cash and cash equivalents — beginning of year	176,498	9,825	186,323
Cash and cash equivalents — end of year	$ 60,373	$ 9,891	$ 70,264

(Continued)

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2010
(In thousands)

	Medical Center	Discrete Component Units	Total (Memorandum Only)
Reconciliation of income from operations to net cash provided by operating activities:			
Income from operations	$ 1,491	$ 7,525	$ 9,016
Adjustments to reconcile income from operations to net cash provided by operating activities:			
Interest expense considered capital and related financing activity	18,078	1,003	19,081
Interest expense considered noncapital financing activity	115	26	141
Depreciation expense	21,112	1,465	22,577
Amortization of bond issue costs	431	93	524
Amortization of discount	34	-	34
Amortization of premium	(149)	-	(149)
Amortization of loss on defeased bonds	347	-	347
Net assets released from restriction	-	(63)	(63)
Unrealized investment income considered operating activity	-	(772)	(772)
Provision for bad debts	86,407	276	86,683
Changes in assets and liabilities:			
Accounts receivable — patients	(82,519)	(376)	(82,895)
Inventories and other current assets	2,084	(1,522)	562
Other assets	1,105	161	1,266
Accounts payable and accrued liabilities	(7,735)	(85)	(7,820)
Other liabilities	4,324	(681)	3,643
Net cash provided by operating activities	$ 45,125	$ 7,050	$ 52,175
Supplemental disclosure of noncash investing, capital, and financing activities:			
Property and equipment unpaid and included in accounts payable	$ 937	$ -	$ 937

See notes to financial statements.

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

STATEMENT OF FIDUCIARY NET ASSETS
SEPTEMBER 30, 2010
(In thousands)

Assets:	
Investments — at fair value:	
U.S. government securities and repurchase agreements	$ 43,039
Municipal bonds	1,922
Corporate bonds	11,985
Mortgage backed securities	5,993
Money market and mutual funds	87,548
Pooled, common and collective funds	14,356
Other fixed income	2,209
Total investments — at fair value	167,052
Contribution receivable	1,721
Accrued income	310
Net assets held in trust for pension benefits	$ 169,083

See notes to financial statements.

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED SEPTEMBER 30, 2010
(In thousands)

Additions:	
Investment results:	
Appreciation in fair value of investments	$ 12,386
Interest and dividends	2,178
Investment expenses	(215)
Net investment results	14,349
Employers' contributions	16,798
Total additions	31,147
Deductions:	
Administrative expenses	50
Benefits paid directly to participants	10,194
Total deductions	10,244
Increase in net assets held in trust for pension benefits	20,903
Net assets held in trust for pension benefits — beginning of year	148,180
Net assets held in trust for pension benefits — end of year	$ 169,083

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity — Halifax Hospital Medical Center ("Medical Center") d/b/a Halifax Health was created by a special act of the Legislature of the State of Florida, Chapter 2003-374, Laws of Florida, as a special taxing district, a public body corporate and politic of the State of Florida and successor to Halifax Hospital District created pursuant to Chapter 112.72, Laws of Florida, Special Acts of 1925. The Medical Center's Board of Commissioners ("Board") is empowered to levy ad valorem taxes for operating expenses, capital outlays, and other purposes.

The Medical Center, located in Daytona Beach, Florida, is a full service, accredited, acute care hospital licensed to operate 764 beds. The Medical Center owns and operates three inpatient hospital facilities under one license and several ambulatory facilities. The main campus of the Medical Center is the inpatient referral center; providing a Level II neonatal intensive care; a Level II state-certified trauma center offering open-heart surgery, neurosurgery; and other specialty inpatient and outpatient services. The Port Orange campus, located 10 miles south of the main campus, is a community hospital providing a broad range of services to the residents of Port Orange and Southeast Volusia County. The Halifax Behavioral Services campus, located two miles north of the main campus, provides child, adolescent, and adult inpatient and outpatient psychiatric services to the residents of Volusia and Flagler Counties.

As required by accounting principles generally accepted in the United States of America ("GAAP"), these financial statements represent the primary government (the "Medical Center") and its component units. The component units discussed below are included because of the significance of their operational or financial relationships with the Medical Center.

Component Units — East Volusia Health Services, Inc. ("EVHS"); HH Holdings, Inc. ("Holdings"); Halifax Healthy Families Corporation d/b/a Healthy Communities ("Healthy Communities"); Halifax Hospice, Inc. d/b/a Hospice of Volusia/Flagler ("Hospice"); Halifax Management System, Inc. ("HMS"); Halifax Medical Center Foundation, Inc. ("Foundation"), Halifax Staffing, Inc. ("Staffing"); Patient Business & Financial Services, Inc. ("PBFS"); and Volusia Health Ventures, Inc. d/b/a Volusia Health Network ("VHN"), are legally separate organizations for which the Medical Center is financially accountable, and the nature and significance of their relationship to the Medical Center are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Accordingly, these organizations represent blended or discrete component units of the Medical Center.

Blended Component Units — EVHS, Holdings, Healthy Communities, PBFS and Staffing were established primarily to provide administrative and other services for and on behalf of the Medical Center. These entities are blended within the financial results of the Medical Center. The Medical Center is the sole member of each blended component unit.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

EVHS is a not-for-profit corporation organized under the laws of Florida. EVHS was organized for the purpose of entering into joint-venture agreements to enhance the access and quality of patient care provided to the community.

Holdings is a not-for-profit corporation organized under the laws of Florida that was established to manage the remaining net assets that resulted from the sale of Florida Health Care Plan ("FHCP") (see Note 17).

Healthy Communities is a not-for-profit corporation organized under the laws of Florida, which coordinates the delivery of education, health resources, and direct assistance to the community. The services provided by Healthy Communities include administering Healthy Kids (child health insurance program), facilitating the provision of preventive care, and providing education and other activities relating to the general welfare of all children in Volusia and Flagler counties.

PBFS is a not-for-profit corporation that operates the patient accounting services for the Medical Center and employs the staff for this function.

Staffing is a not-for-profit corporation organized under the laws of Florida, formed for the purpose of providing individuals to staff and manage the Medical Center and any other related entities and facilities. The Medical Center is obligated to reimburse Staffing for all costs incurred in meeting its obligations under an agreement between the parties.

Discrete Component Units — Foundation, Hospice, HMS, and VHN are reported as discrete component units. The combining financial statements of the discrete component units are shown in the additional information section following Halifax Health's financial statements. Separate financial statements for Hospice and HMS may be obtained directly from the Medical Center upon request.

The Foundation was organized in 1988 as a not-for-profit corporation under the laws of Florida. The Foundation is the exclusive fund-raising organization for the Medical Center.

Hospice was organized in 1984 as a not-for-profit corporation under the laws of Florida. Hospice provides palliative medical care and treatment to patients who have less than six months to live via three inpatient care centers and in-home hospice services. The Port Orange care center is a 16-bed inpatient care center located in the City of Port Orange. The West Volusia Care Center is an 18-bed center in Orange City. The Southeast Volusia care center is a 12-bed facility located in Edgewater.

HMS was organized in 1984 as a not-for-profit corporation under the laws of Florida. HMS owns and leases to the Medical Center two ambulatory facilities and one hospital facility purchased in 1998 from a third-party developer. Facilities located in Ormond Beach and on the Medical Center's main campus in Daytona Beach provide outpatient hospital services and medical offices. The third facility, located in Port Orange, is an 80-bed inpatient hospital.

VHN was organized in 1984 as a not-for-profit corporation under Florida Law. VHN operates a preferred provider network of physicians and hospitals in the service area and offers the network and certain related services to employers that are self-insured for health coverage of their employees.

Fiduciary Fund Financial Statements — The Pension Trust Fund (the "Pension Fund"), a fiduciary fund, is used to account for net assets held in trust for the pension benefits of employees of Staffing and Hospice. The Pension Fund is presented separately in the fiduciary fund financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Standards — These financial statements have been prepared in accordance with the Governmental Accounting Standards Board ("GASB") codification ("GASB Cod."). Halifax Health has elected to apply the Accounting Standards Codification ("ASC") except for those ASC sections that conflict with GASB pronouncements, in accordance with GASB Cod. Sec. P80 – *Proprietary Fund Accounting and Financial Reporting*.

The financial statements of Halifax Health have been prepared on the accrual basis of accounting.

"Total (Memorandum Only)" Columns — Total columns in the financial statements are noted "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with GAAP. Certain intercompany eliminations have not been made in the summarization of this data. As of September 30, 2010, there is approximately $1.7 million due to the Medical Center from the discrete component units included in other current assets and other current liabilities, respectively; and $1.5 million due from the Medical Center to the discrete component units included in other current liabilities and other current assets on the accompanying statement of net assets, respectively.

Cash and Cash Equivalents — Halifax Health considers all unrestricted highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Investments — Investments are reported at fair value or amortized cost, if not materially different from fair value. Interest and dividends, when earned, and investment gains and losses, realized and unrealized, are recorded as nonoperating revenue in the statement of revenues, expenses, and changes in net assets.

Net Patient Accounts Receivable — Net patient accounts receivable are reported at estimated net realizable amounts due from patients, third-party payors, and others for services rendered. The provision for bad debts is based on management's assessment of historical and expected net collections, considering business and economic conditions, trends in health care coverage, and other collection indicators. Throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon these trends. The results of this review are then used to make any modifications to the provision for bad debts and to establish an appropriate estimated allowance for uncollectible accounts. Specific patient accounts identified as uncollectible are written off to the allowance for uncollectible accounts.

Assets Whose Use Is Limited — Assets whose use is limited includes assets held for self-insurance funds, trustee-held funds for capital projects, Board-designated funded depreciation, and Board-designated assets set aside for other purposes.

Inventories — Inventories consist of supplies, which are stated at the lower of cost (on a first-in, first-out basis) or market.

Capital Assets — Halifax Health's policy is to capitalize, at cost, purchases of real property and equipment greater than $1,000 that have a useful life of longer than one year. The cost of additions and replacements are capitalized in the same manner. The cost of minor equipment less than $1,000 and repairs are recorded in operating expenses.

Halifax Health reviews its capital assets and considers impairment whenever indicators of impairment are present, such as the decline in service utility of a capital asset that is large in magnitude and the event

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

or change in circumstance is outside the normal life cycle of the capital asset. Pursuant to these guidelines, management identified an impaired asset during 2010; see note 5 for more information.

Intangible Assets — Halifax Health capitalizes certain intangible assets in accordance with, and not specifically excluded by, GASB Cod. Sec. 1400 – *Reporting Capital Assets*. Generally, those intangible assets would meet the same criteria for capitalization as other capital assets; primarily, cost greater than $1,000 and a useful life of longer than one year. See note 1 *Change in Accounting* for more information.

Depreciation — Halifax Health follows the policy of depreciating all property and equipment on a straight-line basis over the estimated useful lives of the related assets. Estimated useful lives range from five to 20 years on land improvements, 10 to 40 years on buildings, 10 to 20 years on fixed equipment, and three to 20 years on major movable equipment.

Derivative Instruments — On June 22, 2006, the Medical Center entered into an interest rate swap derivative instrument ("Swap"). The Swap agreement was amended on September 15, 2008. Effective October 1, 2009, the Medical Center adopted GASB Cod. Sec. D40 – *Derivative Instruments,* and applies hedge accounting for its Swap. For effective hedging instruments, the change in fair value is recorded as a deferred outflow on the statement of net assets in noncurrent assets. The fair value of the Swap is reported in noncurrent liabilities. See note 1 *Change in Accounting* for further information on GASB Cod. Sec. D40, and note 8 for more information on the Swap.

Other assets — Bond issuance costs are included in other assets and amortized over the period the bonds are outstanding using the straight-line method, as it materially approximates the effective rate method. Amortization expense related to bond issuance costs is included in depreciation and amortization expense in the accompanying statement of revenues, expenses, and changes in net assets.

Personal Leave Time — In place of holiday, sick, and vacation time, Halifax Health utilizes a single category called personal leave time. Personal leave time accrued but not used at September 30, 2010, is included in accrued payroll and personal leave time in the accompanying statement of net assets.

Pension Plan — The Halifax Pension Plan (the "Plan") is a cost-sharing, multiple-employer, noncontributory defined benefit pension plan that covers certain employees of the two participating employers. The Plan is accounted for in accordance with GASB Cod. Sec. Pe5 – *Pension Plans – Defined Benefit*. Contributions are made based on the minimum recommended contribution as determined by actuarial valuation. The Plan is considered a governmental plan exempt from Employee Retirement Income Security Act requirements based upon rulings received from the Internal Revenue Service.

Self-Insurance — The Medical Center is self-insured for various risks of loss, including professional and general liability losses, workers' compensation claims, and employees' health claims. Estimated liabilities include a reserve for known claims and for claims that have been incurred but not reported. The noncurrent portion of estimated professional and general liability losses and workers' compensation claims have been discounted using a 4% interest rate for 2010. Estimated losses for employees' health claims are not discounted as all amounts are considered current liabilities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes — The Medical Center is tax exempt under Section 115 of the Internal Revenue Code ("IRC"). Except for VHN, all of the component units are not-for-profit corporations described in Section 501(c)(3) of the IRC and are exempt from federal and state income taxes on related income pursuant to Section 501(a) of the IRC and Chapter 220.13 of the Florida Statutes, respectively. VHN is a taxable Florida not-for-profit corporation.

Net Assets — Halifax Health reports net assets in accordance with GASB Cod. Sec. 2200 – *Comprehensive Annual Financial Report.* As such, net assets are reported in three components: invested in capital assets – net of related debt, restricted and unrestricted. Net assets invested in capital assets - net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of any debt issued that is attributable to the acquisition, construction, or improvement of those capital assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt.

Restricted net assets are net assets that have constraints placed on them externally by creditors, grantors, contributors or laws or regulations of other governments, or laws through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of restricted or invested in capital assets – net of related debt.

Use of Estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue and Expenses — For purposes of presentation, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenue and expenses. Peripheral or incidental transactions, such as gains and losses, donations, and investment income are reported as nonoperating revenues, expenses, gains, or losses.

Halifax Health's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Ad valorem taxes levied and received by the Medical Center are designated by law to fund the Medical Center's operating expenses, including maintenance, construction, improvements, and repairs to the Medical Center or fund other expenses in carrying out the business of the Medical Center. The Medical Center considers ad valorem tax receipts to be ongoing and central to the provision of health care services and, accordingly, classifies these funds as other operating revenue.

Substantially all expenses, including financing costs and those expenses directly attributable to the Medical Center's status as a taxing authority, are considered by management to be ongoing and central to the provision of health care services and, therefore, are reported as operating expenses. The excess of revenue over expenses is reported as income from operations in the accompanying statement of revenues, expenses, and changes in net assets and excludes investment income, nonoperating gains, distributions to or from affiliates, and donation revenue.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Ad valorem taxes received by the Medical Center are based on the assessed valuation of certain taxable real and personal property at the Board-approved millage rate for the year. Gross receipts of approximately $34.5 million are included in operating revenues in the Medical Center's accompanying statement of revenues, expenses, and changes in net assets. Certain expenses directly attributable to the Medical Center's status as a taxing authority are classified as ad valorem tax-related expenses. These expenses, when added to the charity care and other uncompensated care provided to qualifying patients, exceed ad valorem taxes received and are considered by the Board when determining tax assessments.

Net Patient Service Revenue — Halifax Health serves certain patients whose medical costs are not paid at established rates. These include patients sponsored under government programs, such as Medicare and Medicaid, patients sponsored under private contractual agreements, and uninsured patients who have limited ability to pay.

Net patient service revenue is reported at estimated net realizable amounts due from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Approximately $6.6 million in amounts due to Medicare and Medicaid relating to estimated future retroactive adjustments is recorded in accounts payable and accrued liabilities.

Revenue from the Medicare and Medicaid programs accounted for approximately 46% of Halifax Health's net patient service revenue for the year ended September 30, 2010. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Adjustments to revenue are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as changes in estimated provisions and final settlements are determined. Adjustments to revenue related to prior periods increased net patient service revenue by approximately $2.5 million for the year ended September 30, 2010.

The Medical Center and Hospice classify a patient as charity based on established policies. These policies define charity services as those services for which no payment is anticipated. When assessing a patient's ability to pay, the Medical Center utilizes percentages of the federal poverty income levels, as well as the relationship between charges and the patient's income. Hospice classifies charity patients as those whose income is at or below the federal poverty guidelines. Core services may be covered in full, or discounted based on income and a sliding scale.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net patient service revenue is reported net of charity adjustments, contractual adjustments, and provision for bad debts for the year ended September 30, 2010, as follows *(in thousands)*:

	Medical Center	Discrete Component Units	Total (Memorandum Only)
Gross patient charges	$ 1,159,481	$ 46,289	$ 1,205,770
Charity adjustments	(24,026)	(580)	(24,606)
Contractual adjustments	(682,946)	(240)	(683,186)
Net patient service revenue before provision for bad debts	452,509	45,469	497,978
Provision for bad debts	(86,407)	(276)	(86,683)
Net patient service revenue	$ 366,102	$ 45,193	$ 411,295

Change in Accounting — On October 1, 2009, the Medical Center adopted GASB Cod. Sec. D40 - *Derivative Instruments*. In accordance with GASB Cod. Sec. D40, the change in the fair value of effective hedging derivative instruments is required to be deferred and reported as deferred outflows or deferred inflows within noncurrent assets and noncurrent liabilities, respectively, on the statement of net assets. Deferral of the change in fair value generally lasts until the transaction involving the hedged item terminates. The Medical Center currently has one interest rate swap associated with its Series 2008 bonds that is eligible to be hedged and determined to be effective. As such, the Medical Center has adjusted the beginning balance of net assets on the statement of revenues, expenses, and changes in net assets to reflect retrospective adoption. The effect of adopting GASB Cod. Sec. D40 was to increase the beginning balance of net assets by $16.8 million and recorded a deferred outflow of $16.8 million at October 1, 2009. See note 8 for further information about the interest rate swap.

On October 1, 2009, Halifax Health adopted GASB Statement No. 51 – *Accounting and Reporting for Intangible Assets*, which has been codified to GASB Cod. Sec. 1400 – *Reporting Capital Assets*. GASB Statement No. 51 requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of such intangible assets. This guidance should be applied in addition to existing authoritative guidance for capital assets. The effect of adopting GASB Statement No. 51 was immaterial to the financial statements of the Halifax Health.

New Accounting Pronouncements — In June 2010, the GASB issued Statement No. 59 – *Financial Instruments Omnibus*, effective for reporting periods beginning after June 15, 2010. Management is evaluating the impact of GASB Statement No. 59 and it is not expected to have a material effect on the financial statements of Halifax Health.

2. INVESTMENTS, ASSETS WHOSE USE IS LIMITED, AND RESTRICTED ASSETS

Investments — Investments for Halifax Health at September 30, 2010 consist of the following *(in thousands)*:

	Medical Center	Discrete Component Units
Marketable debt and equity securities	$ 124	$ 21,789
Fixed income securities	127,187	17,401
	$ 127,311	$ 39,190

Assets Whose Use Is Limited and Restricted Assets — Assets whose use is limited that are available for obligations classified as current liabilities are reported in current assets. The composition of assets whose use is limited and restricted assets at September 30, 2010, is set forth below *(in thousands)*:

	Trustee-Held Funds Under Indenture Agreements for Debt Service	Trustee-Held Self-Insurance Funds	Board Designated Funded Depreciation	Endowment Funds	Board Designated Other	Total
Medical Center						
Short-term investments	$ 328	$ 20	$ 306	$ -	$ -	$ 654
U.S. Treasury and agency obligations	20,003	-	64,890	-	-	84,893
Accrued interest receivable	-	12	170	-	-	182
Fixed-income securities	-	1,758	79,925	-	-	81,683
	$ 20,331	$ 1,790	$ 145,291	$ -	$ -	$ 167,412
Discrete Component Units						
Short-term investments	$ 2,653	$ -	$ -	$ 720	$ -	$ 3,373
Fixed-income securities	-	-	-	-	1,060	1,060
Equity securities	-	-	-	-	1,591	1,591
	$ 2,653	$ -	$ -	$ 720	$ 2,651	$ 6,024

Investment income on assets whose use is limited, restricted assets, and investments for the year ended September 30, 2010, was $11.1 million for the Medical Center and $2.5 million for the discrete component units. Investment income includes net unrealized gains of approximately $6.0 million for the Medical Center and $1.6 million for the discrete component units.

3. DEPOSITS AND INVESTMENT RISK

GASB Cod. Sec. I50 – *Investments*, requires disclosures related to investment and deposit risks, including risks related to credit risk, consisting of custodial credit risk and concentrations of credit risk, interest rate risk, and foreign currency risk. GASB Cod. Sec. I50 also requires the disclosure of the credit quality of investments in debt securities, except for obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government.

Investment Risk — Halifax Health has an established investment policy (the "policy") in order to control and diversify risk by limiting specific security types and/or concentration with individual financial institutions. Specific investment types are limited to a percentage of the total investment portfolio and maximum maturity date. Investment strategies are influenced by relative market yields and the cash needs of Halifax Health. Excess funds of Halifax Health's component units may be invested in accordance with the respective component unit's investment policy. Excess funds of Halifax Health may be invested in, but not limited to:

- U.S. Government securities and repurchase agreements;
- U.S. Government agency obligations;
- Domestic Bank Certificates of Deposit provided that any such investments are in Federal Deposit Insurance Corporation guaranteed accounts or deposits collateralized by U.S. Government securities or obligations; and
- Repurchase agreements with reputable financial institutions, which are fully secured by U.S. Government obligations.

All investment decisions are made based on reasonable research as to credit quality, liquidity, and counterparty risk prior to the investment. An investment advisory firm is utilized to monitor the investment of all funds and performance of the portfolio is reported to Halifax Health's management and the investment committee of the Board quarterly.

Deposit Risk — Deposit risk is the risk that, in the event of the failure of a depository financial institution, Halifax Health will not be able to recover its deposits. Halifax Health's deposits are covered by federal depository insurance, collateralized with U.S. Treasury Securities and Federal Agency Securities, or guaranteed 100% by the State of Florida and collateralized through the State of Florida Bureau of Collateralization. At September 30, 2010, Halifax Health's investments were not exposed to custodial credit risk.

Credit Risk — The policy provides guidelines to investment managers that restrict investments in debt securities to those with an A-rating or better. The policy also has established asset allocation limits to reduce the concentration of credit risk. Guidelines are provided to investment managers and monitored by the investment advisory firm and management for compliance. As of September 30, 2010, Halifax Health does not have investments with a single issuer that represent 5% or more of total investments.

Interest Rate Risk — Changes in interest rates can adversely affect the fair value of an investment. Halifax Health manages its exposure to interest rate risk by limiting investment maturities and diversifying its investment portfolios. At September 30, 2010, all investments have maturities between October 1, 2010 and November 15, 2040.

3. DEPOSITS AND INVESTMENT RISK (CONTINUED)

As of September 30, 2010, the Medical Center had cash, investments, and assets whose use is limited maturing as follows *(in thousands)*:

	Fair Value	Less than 1 Year	1–5 Years	6–10 Years	>10 Years
U.S. Government securities	$ 38,509	$ 26,519	$ 7,355	$ 4,635	$ -
U.S. Government agency securities	50,571	27,403	10,957	5,333	6,878
Corporate bonds	30,041	52	1,298	27,359	1,332
Fixed-income funds	158,493	158,493	-	-	-
Equity funds	2,869	2,869	-	-	-
Other, including bank deposits	74,613	73,263	1,350	-	-
Total	$ 355,096	$ 288,599	$ 20,960	$ 37,327	$ 8,210

At September 30, 2010, all of the investments and assets whose use is limited of the discrete component units had maturity dates of less than one year.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of financial instruments:

- Marketable debt and equity securities and U.S. Government securities are based on quoted market prices at September 30, 2010.

- Fixed-income securities, mutual funds, and collective trusts are based on quoted market prices at September 30, 2010.

- Bonds payable, long-term notes, and other indebtedness are based on the quoted market prices for the outstanding issues at September 30, 2010;

    - Long-term debt related to bonds payable is reported at historical value. The carrying value at September 30, 2010, is $362.6 million and the fair value at September 30, 2010, is approximately $371.7 million.

- The fair value of the interest rate swap ("swap") was approximately $23.8 million at September 30, 2010, as determined by an independent source. The determination is made based on assumptions about the interest rates, the duration of the swap, cash flow projections, and other factors. See note 8 for more information about the swap.

5. CAPITAL ASSETS

Capital assets are recorded at cost and presented net of accumulated depreciation in the statement of net assets. A summary of the activities for the year ended September 30, 2010, consists of the following *($ in thousands)*:

	Balance at October 1, 2009	Increases	Decreases	Balance at September 30, 2010
Medical Center				
Capital assets – at cost:				
Land	$ 45,190	$ -	$ 1,862	$ 43,328
Land improvements	7,320	-	12	7,308
Buildings	295,996	64,549	9,116	351,429
Fixed equipment	20,188	97	151	20,134
Major moveable equipment	86,828	4,857	5,833	85,852
Construction in progress	57,149	12,744	63,757	6,136
Total capital assets – at cost	512,671	82,247	80,731	514,187
Accumulated depreciation:				
Land improvements	5,594	215	5	5,804
Buildings	76,207	11,515	440	87,282
Fixed equipment	14,942	611	148	15,405
Major moveable equipment	56,815	8,771	4,567	61,019
Total accumulated depreciation	153,558	21,112	5,160	169,510
Capital assets – net	$ 359,113	$ 61,135	$ 75,571	$ 344,677
Discrete Component Units				
Capital assets – at cost:				
Land	$ 1,954	$ -	$ -	$ 1,954
Land improvements	27	-	-	27
Buildings	48,677	822	215	49,284
Fixed equipment	130	34	-	164
Major moveable equipment	1,684	38	81	1,641
Construction in progress	264	-	110	154
Total capital assets – at cost	52,736	894	406	53,224
Accumulated depreciation:				
Land improvements	6	3	-	9
Buildings	12,051	1,263	-	13,314
Fixed equipment	49	22	-	71
Major moveable equipment	1,051	177	69	1,159
Total accumulated depreciation	13,157	1,465	69	14,553
Capital assets – net	$ 39,579	$ (571)	$ 337	$ 38,671

5. CAPITAL ASSETS (CONTINUED)

Impairment — During fiscal year 2010, it was determined that a building purchased in prior years for the purpose of providing patient care was no longer suitable for that purpose. An impairment loss on the building of $5.7 million was recognized at September 30, 2010, and is recorded in nonoperating revenues, expenses, gains, and losses in the accompanying statement of revenues and expenses. The remaining value of the building is fully depreciated and therefore, has a net book value of $0 at September 30, 2010.

6. SELF-INSURANCE AND INSURANCE

Self-Insurance — The Medical Center is self-insured for various risks of loss, including professional and general liability losses, workers' compensation claims, and employees' health claims. Certain other component units participate in the Medical Center's employee health and workers' compensation self-insurance programs. Self-insurance funds are held by a trustee bank and recorded as assets whose use is limited.

The Medical Center, as a subdivision of the State of Florida, has sovereign immunity in tort actions. Therefore, in accordance with Chapter 768.28 Laws of Florida, the Medical Center and its component units are not liable to pay a claim by or judgment to any one person which exceeds the sum of $100,000 or any claim or judgment, or portions thereof, which when totaled with all other claims or judgments paid by the state or its agencies or subdivisions arising out of the same incident or occurrence exceeds the sum of $200,000. Chapter 768.28 also provides that judgments may be claimed or rendered in excess of these limits; however, these amounts must be reported to and approved by the Florida Legislature. In April 2010, Governor Charlie Crist approved Chapter 2010-26, Laws of Florida which raised the limits of sovereign immunity to $200,000 per claim and $300,000 in the aggregate, effective October 1, 2011, for claims arising on or after that date. Management is evaluating the effect of this change; however, it is not expected to have a significant impact.

Professional and general liability losses are recorded when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Accrued self-insurance liabilities include an amount for claims that have been incurred but not reported based on actuarial determinations. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

The liabilities for employees' health insurance and workers' compensation claims are estimated based on historical data. The Medical Center has commercial insurance policies for health insurance and workers' compensation for cases that exceed certain limits. The health insurance policy includes an 80% indemnity of cases that exceed $325,000 and a $1 million lifetime maximum. Specific excess coverage for workers' compensation includes retention of $750,000 per accident.

6. SELF-INSURANCE AND INSURANCE (CONTINUED)

Changes in the accrued self-insurance liabilities are as follows *(in thousands)*:

	Balance at October 1, 2009	Current Year Claims and Changes in Estimates	Claim Payments	Balance at September 30, 2010
Employee health claims	$ 4,651	$ 10,321	$ (11,852)	$ 3,120
Professional liability	5,620	962	(1,152)	5,430
Workers' compensation	2,743	1,724	(1,183)	3,284
Total	$ 13,014	$ 13,007	$ (14,187)	$ 11,834

Halifax Health may incur losses in excess of amounts accrued, although an estimate of such excess cannot be made. However, in management's opinion such excess should not have a material adverse effect on the results of operations or financial position of Halifax Health.

7. LONG-TERM DEBT

Long-term debt at September 30, 2010, consists of the following *(in thousands)*:

Medical Center	
Bonds payable, Series 2006 A — net of premium of $2,112 and loss on defeased bonds of $3,087	$ 174,025
Bonds payable, Series 2006 B1 & B2 Fixed Rate Conversion — net of discount of $1,835 and loss on refunded bonds of $2,669	100,496
Bonds payable, Series 2008	70,000
Long-term debt	$ 344,521
Discrete Component Units	
Bonds payable, 1998 Series A — net of discount of $61 (HMS)	$ 16,774
Long-term notes and other indebtedness (HMS)	1,299
Long-term debt	18,073
Current portion of long-term debt	1,887
Long-term debt-less current portion	$ 16,186

Bonds Payable — The Medical Center previously issued $350 million of debt to refund prior debt and to provide funding for capital projects. The debt is organized with principal balances as follows: $175 million of tax-exempt; fixed-rate bonds (Series 2006 A); $105 million of tax-exempt, insured, fixed-rate bonds (Series 2006 B); and $70 million of tax-exempt, variable-rate demand-obligation bonds (Series 2008), secured by a letter of credit.

The Series 2006 A bonds carry interest rates ranging from 5.00% to 5.38% and have a maximum maturity of June 1, 2046. The net proceeds of the Series 2006 A bonds were used to advance refund outstanding indebtedness, convert a line of credit to long-term indebtedness, fund a debt service reserve fund ("DSRF"), and provide funds for capital projects.

7. LONG-TERM DEBT (CONTINUED)

The portion of net proceeds of the Series 2006 A bonds reserved to refund the Medical Center's previously outstanding indebtedness were deposited into an irrevocable trust with an escrow agent that provides for all future debt service payments on the advance refunded bonds. As such, the advance refunded debt is considered defeased and the liability for that debt has been removed from the accompanying financial statements. The total amount of defeased in substance bonds outstanding at September 30, 2010, for the Series 1999 A bonds is $18.6 million.

The Series 2006 B bonds are fixed-rate securities insured by Financial Security Assurance Inc. ("FSA"). The Series 2006 B bonds carry interest rates ranging from 5.38% to 5.50%. The Series 2006 B bonds have maturities extending through June 1, 2038. The net proceeds of the Series 2006 B bonds were used to fund a DSRF, to provide funds for future capital projects and for reimbursement of prior capital expenditures. The Series 2006 B bonds are bifurcated into Series 2006 B-1 and Series 2006 B-2 bonds.

The Series 2008 bonds are tax-exempt, variable-rate securities with a weekly interest-rate period. The Series 2008 bonds have final maturities of June 1, 2048. The net proceeds of the Series 2008 bonds were used to advance refund a portion of the Medical Center's outstanding indebtedness, to provide funds for future capital projects, and for reimbursement of prior capital expenditures.

The Series 2008 bonds are subject to purchase from time to time at the option of the owners thereof and are required to be purchased in certain circumstances. As such, the bonds are supported by a remarketing agreement and an irrevocable direct pay letter of credit with a bank in the aggregate amount of $70 million at September 30, 2010. The remarketing agreement generally provides the Medical Center the option to market the obligations at the then-prevailing short-term rate, as determined by the remarketing agent. The obligations were marketed weekly during 2010, with interest rates ranging from 0.013% to 0.320%. The term of the letter of credit expires November 17, 2015. The letter of credit is secured by an interest in any bonds purchased with draws on the letter of credit and amounts payable under the Master Trust Indenture ("MTI"). The Medical Center did not draw on the letter of credit during 2010. In the event that the Medical Center would be required to draw on the letter of credit, repayments of principal and interest would begin one year after the date of the draw, and be made in 12 equal quarterly installments. Any amounts outstanding at the termination date of the letter of credit would be due and payable at that date. Pursuant to the terms of the letter of credit, the Medical Center is required to comply with certain provisions regarding additional borrowings, capital expenditures, and the maintenance of certain financial ratios. The Medical Center was in compliance with these covenants at September 30, 2010.

The Medical Center has a $70.0 million notional amount fixed-pay percentage of the London InterBank Offered Rate ("LIBOR") interest rate swap on the Series 2008 bonds. The variable interest paid on the Series 2008 bonds is expected to correlate very closely with the rate that is received on the related swap (see note 8 for further information on the swap). The effective interest rate on the swap is a synthetic fixed rate of interest of approximately 3.837%.

Pursuant to the terms of the MTI under which the bonds were issued (excluding conduit indebtedness), principal and interest on each bond series are payable from and secured by a pledge of net revenues of the Obligated Group, which is comprised of the Medical Center and Holdings. In addition, the Medical Center is required to comply with certain provisions regarding additional borrowings and the maintenance of certain minimum debt service coverage, liquidity, and indebtedness ratios, and must maintain DSRF's to pay the principal and/or interest on the respective bond issues in the event that insufficient funding is available to satisfy current debt service requirements. The funds are held by a trustee and any amounts in excess of the requirements of the DSRF can be used to repay outstanding bonds. The Medical Center was in compliance with these covenants as of September 30, 2010.

7. LONG-TERM DEBT (CONTINUED)

The Medical Center issued conduit indebtedness in 1998 on behalf of HMS. The Series 1998A bonds are special limited obligations of the Medical Center, payable solely from and secured by a pledge of rentals to be received from a lease agreement between the Medical Center and HMS. The bonds do not constitute a debt or pledge of the faith and credit of the Medical Center.

A summary of bond issues follows *($ in thousands)*:

Fixed-Rate Bonds

		Serial Bonds			Term Bonds		
Series	Date Issued\ Converted	Amount	Interest Rate	Maturity Date	Amount	Interest Rate	Maturity Date
Medical Center							
Series 2006 A	June 22, 2006	$ 38,150	5.00% – 5.25%	June 1, 2021	$ 39,380	5.25 %	June 1, 2026
					46,600	5.00 %	June 1, 2038
					50,870	5.38 %	June 1, 2046
Series 2006 B1	September 18, 2008				70,925	5.50 %	June 1, 2038
Series 2006 B2	September 18, 2008				34,075	5.38 %	June 1, 2031
HMS							
Series 1998 A	February 26, 1998	$ 13,685	4.40% – 5.00%	April 1, 2012	$ 13,285	5.20 %	June 1, 2018

Variable-Rate Bonds

Series	Date Issued	Original Issue Amount	Interest Rate Period	Interest Rate at September 30, 2010 *	Maturity Date
Medical Center					
Series 2008	September 18, 2008	$ 70,000	7 days	0.27 %	June 1, 2048

* This rate is the remarketed interest rate in effect as of September 30, 2010. The Medical Center also has a fixed-pay interest rate swap with a notional amount of $70 million. See note 8 for more information on the interest rate swap.

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7. LONG-TERM DEBT (CONTINUED)

Listed below are the debt service payments for the Medical Center and HMS for each of the five years ending September 30, 2011 through 2015, and in five-year increments thereafter *(in thousands)*. The interest rate used to calculate interest on the variable rate debt was the remarketed interest rate in effect at September 30, 2010.

	2006 Series A		2006 Series B Fixed-rate Conversion		2008 VRDO Series		HMS Series 1998A (Conduit Indebtedness)		HMS Other	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ -	$ 9,121	$ -	$ 5,733	$ -	$ 189	$ 1,755	$ 868	$ 132	$ 76
2012	1,715	9,121	-	5,733	-	189	1,845	780	140	68
2013	1,830	9,035	-	5,733	-	189	1,935	688	148	60
2014	1,855	8,944	-	5,733	-	189	2,035	588	157	51
2015	3,155	8,851		5,733		189	2,145	482	166	42
2016-2020	22,870	41,498	-	28,665	-	945	7,120	753	556	67
2021-2025	37,400	33,700	-	28,665	-	945	-	-	-	-
2026-2030	21,335	24,869	27,880	26,515	-	945	-	-	-	-
2031-2035	19,640	20,297	44,270	16,590	-	945	-	-	-	-
2036-2040	25,125	14,845	32,850	3,702	9,105	921	-	-	-	-
2041-2045	32,480	7,462	-	-	26,165	651	-	-	-	-
2046-2050	7,595	408	-	-	34,730	165	-	-	-	-
	$ 175,000	$ 188,151	$ 105,000	$ 132,802	$ 70,000	$ 6,462	$ 16,835	$ 4,159	$ 1,299	$ 364

7. LONG-TERM DEBT (CONTINUED)

Long-Term Notes Payable and Other Indebtedness — Concurrent with the issuance of the Series 1998A HMS Bonds, HMS executed a promissory note payable in the amount of $2.3 million to the Medical Center. The note payable amortizes on a level debt service basis over the term of the Series 1998A bonds at an interest rate of 5.85%. The outstanding principal at September 30, 2010, was $1.3 million.

Long-term debt activity for the year ended September 30, 2010, consisted of the following *(in thousands)*:

	Balance at September 30, 2009	Additions (Reductions) Net of Original Issue Discounts, Premium, and Loss on refunding	Balance at September 30, 2010
Medical Center			
Series 2006 A Bonds	$ 173,901	$ 124	$ 174,025
Series 2006 B Fixed Rate Conversion	100,388	108	100,496
Series 2008	70,000	-	70,000
Total	$ 344,289	$ 232	$ 344,521
HMS			
Series 1998 A	$ 18,435	$ (1,661)	$ 16,774
Other	1,423	(124)	1,299
Total	$ 19,858	$ (1,785)	$ 18,073

8. INTEREST RATE SWAP

In September of 2008, the Medical Center amended its fixed-pay interest rate swap agreement with a notional amount of $70.0 million in conjunction with the issuance of the Series 2008 bonds that effectively converts the variable rate bonds to a fixed rate. Under the terms of the swap, the Medical Center pays to the counterparty a fixed rate of interest equal to 3.84% of the remaining notional amount. In turn, the Medical Center receives a payment of variable interest equal to 67.0% of LIBOR. The termination date of this swap agreement is June 1, 2048, which coincides with the maximum maturity of the Series 2008 bonds. Payments under the swap agreement are insured by FSA. For the year ended September 30, 2010, the Medical Center made approximately $2.7 million in payments under the swap agreement to the counterparty and received approximately $166,000 in payments under the swap agreement from the counterparty.

The Medical Center has adopted GASB Cod. Sec. D40 (See note 1 — *Change in Accounting*) and has applied hedge accounting for its swap in accordance therewith. At September 30, 2010, the fair value of the swap liability of approximately $23.8 million was included in other long-term liabilities, with the current year change in fair value of approximately $7.1 million recorded as an increase in deferred outflows in noncurrent assets. The fair value of the swap is determined by an independent source.

Interest Rate Risk — The Medical Center is exposed to interest rate risk on the swap. As LIBOR decreases, the Medical Center's net payment on the swap increases.

Basis Risk — The Medical Center is exposed to basis risk on the swap because the variable-rate interest payments it receives on the swap is based on a rate other than the interest rate the Medical Center pays on its hedged, variable rate debt, which is remarketed every seven days. As of September 30, 2010, the weighted-average interest rate on the hedged variable-rate debt is 0.27%, while 67% of LIBOR is 0.17%.

8. INTEREST RATE SWAP (CONTINUED)

Termination Risk — The Medical Center or its counterparty may terminate the swap if the other party fails to perform under the terms of the agreement. If, at the time of termination, the swap is in a liability position, the Medical Center would be liable to the counterparty for payment equal to the liability, subject to net-settlement.

The following table summarizes the Medical Center's anticipated net cash flows from outstanding variable rate debt and the related swap at September 30, 2010 *(in thousands)*. The interest rates used to calculate interest on the variable rate debt and the variable portion of the swap were the respective interest rates in effect at September 30, 2010. The rate used for the fixed-pay portion of the swap is the actual interest rate of 3.84%.

Years ending September 30,	Principal	Interest	Net interest on swap	Total Interest
2011	$ -	$ 189	$ 2,566	$ 2,755
2012	-	189	2,566	2,755
2013	-	189	2,566	2,755
2014	-	189	2,566	2,755
2015	-	189	2,566	2,755
2016-2020	-	945	12,830	13,775
2021-2025	-	945	12,830	13,775
2026-2030	-	945	12,830	13,775
2031-2035	-	945	12,830	13,775
2036-2040	9,105	921	12,332	13,253
2041-2045	26,165	651	8,355	9,006
2046-2048	34,730	165	1,598	1,763
	$ 70,000	$ 6,462	$ 86,435	$ 92,897

9. SHORT-TERM DEBT

The Medical Center has a $15.0 million revolving line of credit ("Line") agreement with Wachovia Bank, N.A., which expired September 9, 2010, and had no outstanding balance at that date.

Hospice has a $5.0 million revolving line of credit agreement with Wachovia Bank, N.A., which expired September 9, 2010 and had no outstanding balance at that date.

10. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS

Defined Benefit Pension Plan — Certain Halifax Health employees participate in the Halifax Pension Plan, which is a cost-sharing, multiple-employer, noncontributory defined benefit pension plan (the "Plan") with two participating employers. The Plan is treated as a single plan for the purposes of making contributions and paying pension benefits, determining whether there has been any termination of service, and applying the maximum benefit limitation. The Plan covers all eligible employees who have attained the age of 21 and have more than one year of service. Eligibility for the Plan was closed to all employees whose initial hire date or rehire date was on or after October 1, 2000. Halifax Health assumed the unfunded portion of the past service liability for Halifax Health's employees who participated and were not vested in the prior pension benefit programs. Pension plan benefits are based on the number of years of service and the employee's highest three-year average annual compensation. Halifax Health's policy is to fund the Plan in accordance with accepted actuarial practices. Plan assets consist of common stock, equity funds, fixed-income funds, and money market accounts.

The Plan issues stand-alone financial statements which can be obtained by contacting the Plan's sponsor, Staffing. The Plan's financial statements are prepared using the accrual basis of accounting. The contribution rate is determined on an actuarial basis. Contributions are recognized when due and the employer has made a formal commitment to fund the contributions. Benefit payments are recognized when due to the Plan participants.

The fair value of individual investments is measured on quoted market prices. The Plan had no investments in any one issuer representing 5% or more of net assets at September 30, 2010.

Defined Contribution Pension Plan — Halifax Health offers a 403(b) defined contribution pension plan (the "Contribution Plan") to employees hired on or after October 1, 2000. The Contribution Plan covers all eligible employees who have attained the age of 18 and have completed 30 days of employment. Halifax Health matches employee contributions dollar-for-dollar up to 3% of the employee's annual salary. Employees vest 20% per year of employment for employer matched funds.

Total cost of the Contribution Plan for the year ended September 30, 2010, was approximately $2.2 million and is included in salaries and benefits in the accompanying statement of revenues, expenses, and changes in net assets. Participants contributed approximately $6.0 million to the Contribution Plan for the year ended September 30, 2010.

Other Postemployment Benefits ("OPEB") — Halifax Health provides certain postretirement benefits other than pension benefits to qualified employees. All employees with 10 years of benefited service as a participant in the Halifax Pension Plan or the Florida Retirement System are eligible to receive a subsidy for health insurance premiums ("Insurance Subsidy OPEB"). The Insurance Subsidy OPEB is a single-employer defined benefit plan. The participant must present, at the time of retirement, evidence of health insurance coverage, either through an insurance company or Medicare. The Insurance Subsidy OPEB is calculated based on the number of years of service and is limited to a maximum annual benefit of $1,800 per participant. The Insurance Subsidy OPEB does not issue stand-alone financial statements. It is included in the financial statements and required supplementary information of Halifax Health.

10. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The following table shows the components of the annual Insurance Subsidy OPEB cost for the year *(in thousands)*.

ARC and Annual OPEB Cost

ARC	$	1,249
Plus: Interest on net OPEB obligation		73
Less: Adjustment to annual required contribution		(105)
Annual OPEB cost		1,217
Contributions made		(921)
Increase in net OPEB obligation		296
Net OPEB obligation, beginning of year		2,421
Net OPEB obligation, end of year	$	2,717

Benefits for participants are self-funded from contributions made by Halifax Health. The annual Insurance Subsidy OPEB cost for fiscal year 2010 is approximately $1.2 million. The net OPEB obligation was $2.7 million as of September 30, 2010, and is included in other liabilities on the Medical Center's balance sheet. The percentage of OPEB cost contributed during fiscal year 2010 was 76%.

Additional information as of the latest actuarial valuation follows.

Valuation date	October 1, 2009
Actuarial cost method	Projected Unit Credit
Amortization method	Level dollar amounts
Remaining amortization period	29 years
Actuarial assumptions:	
Investment rate of return	4.00%

These actuarial assumptions are based on the presumption that the Insurance Subsidy OPEB will continue. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future.

Calculations are based on the benefits provided under the terms of the substantive plan as of the valuation date and on the sharing of costs between the employer and plan members as of that date. In addition, assumptions on employee withdrawal and retirement rates were used. Mortality is assumed to follow the 1994 Group Annuity Mortality Table (sex-distinct), with projection to 2000.

A schedule of funding progress for the plan year is as follows *($ in thousands)*:

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
10/1/2009	$ -	$ 15,211	$ 15,211	0.0%	$ 61,067	24.9%

10. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Halifax Health also offers health insurance to certain retirees at the same cost as active employees, called the "Implicit Rate Subsidy OPEB." It is a single-employer defined benefit OPEB plan. The name of the health insurance plan is the Halifax Health Plan. It provides medical care and prescription drug coverage to full-time employees and specified part-time employees. The Implicit Rate Subsidy OPEB does not issue stand-alone financial statements. It is included in the financial statements and required supplementary information of Halifax Health.

The following table shows the components of the annual Implicit Rate Subsidy OPEB cost for the year *(in thousands)*:

ARC and Annual OPEB Cost

ARC	$	834
Plus: Interest on net OPEB obligation		44
Less: Adjustment to annual required contribution		(62)
Annual OPEB cost		816
Contributions made		(754)
Increase in net OPEB obligation		62
Net OPEB obligation, beginning of year		1,627
Net OPEB obligation, end of year	$	1,689

Benefits for participants are self-funded from contributions made by Halifax Health and plan members. The cost of the plan is a blended rate of active employees and retirees. Retired employees contribute both the employee and employer rates, but do not pay a separate rate based solely on retiree costs to the plan. Therefore, this OPEB provides an implicit rate subsidy to retirees in the plan.

The annual Implicit Rate Subsidy OPEB cost for fiscal year 2010 is approximately $816,000. The annual Implicit Rate Subsidy OPEB obligation was $1,689,000 as of September 30, 2010, and is included in other liabilities on the Medical Center's balance sheet. The percentage of Annual OPEB contributed during fiscal year 2010 is 92%.

Additional information as of the latest actuarial valuation follows.

Valuation date	October 1, 2009
Actuarial cost method	Projected Unit Credit
Amortization method	Level dollar amounts
Remaining amortization period	29 years
Actuarial assumptions:	
Investment rate of return	4.00%
Health Care Trend Rate - First year	9.00%
Health Care Trend Rate - Following 10 years	5.00%

These actuarial assumptions are based on the presumption that the Implicit Rate Subsidy OPEB will continue. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future.

10. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Calculations are based on the benefits provided under the terms of the substantive plan as of the valuation data and on the sharing of costs between the employer and plan members as of that date. In addition, assumptions on employee withdrawal and retirement rates were used. Mortality is assumed to follow the RP-2000 Mortality Table for active and retired males and females with mortality projection scale AA to the year of valuation.

A schedule of funding progress for the previous plan year is as follows *($ in thousands)*:

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
10/1/2009	$ -	$ 7,739	$ 7,739	0.0%	$ 61,067	12.7%

Schedules of funding progress regarding both OPEB plans are included in the required supplementary information section of the financial statements and presents information about whether the value of plan assets is increasing or decreasing over time relative to the Actuarial Accrued Liability for benefits.

11. DEFERRED GIFT ANNUITY PLAN

As part of the Foundation's planned giving program, the Foundation has established a Deferred Gift Annuity Plan (the "Annuity Plan"). Annuity Plan participants make monthly contributions to the Annuity Plan for a specified time period. Contributions are used to purchase commercial annuity contracts and life insurance policies owned by the Foundation. An asset is recorded as of September 30, 2010, in the amount of approximately $1 million that represents the cash surrender value of the life insurance policies and annuity contracts purchased. In addition, a liability is recorded as of September 30, 2010, for approximately $1.3 million which represents the present value of the annuity payments promised to the participants in the Annuity Plan by the Foundation. At September 30, 2010, the Annuity Plan had eight participants.

The Foundation had deferred benefits totaling approximately $7.8 million. This represents life insurance death benefits purchased on the lives of the participants and is contingent upon the consistent payment of premiums under the contracts.

12. CHARITABLE GIFT ANNUITIES

The Foundation has received contributions from various donors in the form of charitable gift annuities, which total approximately $995,000. In consideration of the charitable gift, the Foundation agrees to make annuity payments to the donor for the remainder of the donor's life, and a liability equal to the estimated present value of these annuity payments is recorded in other liabilities in the accompanying statement of net assets. The Foundation calculates the present value using the donors' expected life and a discount rate of 5.0%. The Foundation has also purchased annuities through various insurance companies with an approximate cost of $720,000, which provide annuity payments to the Foundation for the remainder of the donors' lives in amounts equal to those required under the charitable gift annuity agreements. A receivable equal to the estimated present value of these annuity payments is recorded in other assets in the accompanying statement of net assets. The difference between the charitable gift annuities received from each donor and the purchase of annuities with the insurance companies is included as donation revenue, at the time of the gift, in the accompanying statement of revenues, expenses, and changes in net assets.

13. COMMITMENTS AND CONTINGENCIES

Leases — Halifax Health is committed under various noncancelable operating leases. These expire in various years through 2020. Future minimum operating lease payments are as follows *(in thousands)*:

Years Ending September 30,	
2011	$ 9,064
2012	6,367
2013	5,186
2014	4,919
2015	3,688
2016–2020	9,913
Total minimum lease payments required	$ 39,137

In December, 2009, the Office of Inspector General (OIG), U.S. Department of Health and Human Services informed the Medical Center that it is conducting an investigation of the Medical Center concerning certain claims that were submitted to Medicare, and requested certain information concerning that investigation. The Medical Center, with the assistance of its legal counsel and consulting support submitted the requested information. The Medical Center has since learned that the OIG's request arose from a qui tam action in which the government has not yet intervened.

The Medical Center experiences other claims, litigation, and various legal proceedings which individually are not expected to have a material adverse effect on the operations or financial condition of the Medical Center, but may, in the aggregate, have a material impact thereon.

14. CONCENTRATIONS OF CREDIT RISK

Halifax Health grants credit without collateral to its patients, most of who are local residents that are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors at September 30, 2010, was as follows:

	Medical Center	Discrete Component Units
Medicare	19%	70%
Medicaid	13%	20%
Other third-party payors	65%	5%
Self-pay patients	3%	5%
	100%	100%

15. RELATED-PARTY TRANSACTIONS

The Medical Center provides various supplies and services to VHN and Hospice, including accounting, purchasing, and payroll processing services. These services are reimbursed at the Medical Center's cost.

Substantially all of the expenses of the Foundation are paid by the Medical Center and are not reimbursed by the Foundation. These expenses totaled approximately $65,000 for the year ended September 30, 2010. In addition, the Medical Center provides certain administrative services and office space to the Foundation at no charge.

In 1998, the Medical Center entered into a 20-year master lease for office space from HMS. Total rent paid to HMS was approximately $2.6 million for the year ended September 30, 2010.

Transactions between the discrete component units and the primary government are not eliminated in the accompanying financial statements.

16. EVHS JOINT VENTURE

EVHS has a 50% equity interest in a joint-venture agreement with Atlantic East Coast Imaging to operate East Central Florida Outpatient Imaging, LLC ("ECFOI"). During the year ended September 30, 2010, EVHS received distributions of $2.5 million from ECFOI that is included in other operating revenue, and at September 30, 2010, EVHS had $1.4 million recorded as an investment in ECFOI that is included in other assets in the accompanying financial statements. ECFOI issues stand-alone financial statements.

17. SALE OF FHCP

On October 1, 2008, Diversified Health Services, Inc. ("DHS"), a wholly owned subsidiary of Blue Cross and Blue Shield of Florida, Inc. ("BCBSFL"), entered into an agreement (the "Agreement") with Florida Health Care Plan ("FHCP") and the Medical Center to acquire certain assets and assume certain liabilities of FHCP (the "Sale"). The Sale was accomplished through the transfer of these certain assets and liabilities from FHCP to NAC Health Plan, Inc. ("NAC"), simultaneous with the acquisition of 100% of the NAC common stock by DHS, effective December 31, 2008. Also, effective December 31, 2008, FHCP changed its name to Holdings. NAC filed an amendment to its Articles of Incorporation with the state of Florida to change its name to Florida Health Care Plan, Inc. ("New FHCP") effective January 1, 2009, and is a wholly owned subsidiary of DHS. FHCP subsequently relinquished its license to operate as a Florida HMO effective December 31, 2008, and New FHCP began operations on January 1, 2009, as a for-profit stock corporation and a staff model HMO.

17. SALE OF FHCP (CONTINUED)

As stated in the Agreement, the purchase price of the NAC common stock was $85 million, of which $80 million was payable at closing and the remaining $5 million, noncontingent payment is due on December 31, 2010 (the "Purchase Price"). The sale proceeds and retained net assets were reported in the statement of revenues, expenses, and changes in net assets of the Medical Center for the fiscal year ended September 30, 2009.

In accordance with the terms of the Agreement, the purchase price is subject to certain adjustments for actual medical expenses incurred, actual reinsurance recoveries, and actual membership enrollment, as defined in the Agreement. The enrollment adjustment occurred during June 2009. The actual medical claims incurred adjustment occurred during the current fiscal year and the net adjustment to the Medical Center's financial statements, $4,756,195, is reported as a gain on discontinued operations in the accompanying statement of revenues, expenses, and changes in net assets. The adjustment for actual reinsurance recoveries will occur within 90 calendar days of the three-year anniversary of the closing date and will be calculated from the statement of reinsurance recoveries prepared by New FHCP and delivered to Holdings, which will include actual recoveries received on or after the closing date for covered services provided prior to the closing date, net of offsets, recaptures, rescission, returns, and other amounts reclaimed.

18. SUBSEQUENT EVENTS

On November 17, 2010, the Obligated Group issued a remarketing circular in connection with the Halifax Hospital Medical Center Hospital Revenue Refunding and Improvement Bonds, Series 2008, in order to replace the direct pay letter of credit associated with those bonds. Previously, these demand obligation bonds were secured by a direct pay letter of credit with an expiration date of September 18, 2011. In order to maintain the debt as long-term, the Obligated Group was required to extend or replace the letter of credit, with a letter of credit that has an expiration date no sooner than one year from the date of the accompanying statement of net assets. The Obligated Group has replaced the direct pay letter of credit with another bank, which has an expiration date of November 17, 2015. See note 7 for more information.

On October 13, 2009, the Medical Center entered into an agreement to sell certain land located in Daytona Beach, FL, to Indigo Development LLC for a total sales price of approximately $7.6 million over a four-phase closing schedule. On December 16, 2010, the second-phase of the sale was closed with proceeds of approximately $2.6 million.

On December 28, 2010, the Medical Center issued conduit indebtedness on behalf of HMS, the Halifax Medical Center Health Care Facilities Revenue Refunding Bonds (Halifax Management System, Inc. Project), Series 2010 ("Series 2010 bonds"). The total debt issued was approximately $14.6 million and, together with the debt service reserve fund, was used to refund the HMS Series 1998 A bonds outstanding at that date. The Series 2010 bonds are special limited obligations of the Medical Center, payable solely from and secured by a pledge of rentals to be received from a lease agreement between the Medical Center and HMS. The bonds do not constitute a debt or pledge of the faith and credit of the Medical Center.

On December 31, 2010, the Medical Center finalized the purchase of an ambulatory surgery practice located in Daytona Beach, Florida, for a purchase price of approximately $6.9 million. The Medical Center will continue to operate the practice at its current location.

REQUIRED SUPPLEMENTARY INFORMATION

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH
Halifax Insurance Subsidy OPEB

UNAUDITED SCHEDULE OF FUNDING PROGRESS
YEAR ENDED SEPTEMBER 30, 2010
($ in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) — Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
October 1, 2007	$ -	$ 12,891	$ 12,891	0%	$ 69,740	18.5%
October 1, 2008	-	14,714	14,714	0	58,278	25.2
October 1, 2009	-	15,211	15,211	0	61,067	24.9

Source: Consulting Actuaries International, Inc.

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH
Halifax Implicit Rate Subsidy

UNAUDITED SCHEDULE OF FUNDING PROGRESS
YEAR ENDED SEPTEMBER 30, 2010
($ in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) — Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
October 1, 2007	$ -	$ 5,844	$ 5,844	0%	$ 69,740	8.4%
October 1, 2008	-	8,794	8,794	0	58,278	15.1
October 1, 2009	-	7,739	7,739	0	61,067	12.7

Source: Consulting Actuaries International, Inc.

ADDITIONAL INFORMATION

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

COMBINING STATEMENT OF NET ASSETS — DISCRETE COMPONENT UNITS
SEPTEMBER 30, 2010
($ in thousands)

	Halifax Hospice, Inc. d/b/a Hospice of Volusia/Flagler	Volusia Health Ventures, Inc. d/b/a Volusia	Halifax Medical Center Foundation, Inc.	Halifax Management System, Inc.	Total
Assets					
Current assets:					
Cash and cash equivalents	$ 9,403	$ -	$ 488	$ -	$ 9,891
Investments	26,205	-	12,985	-	39,190
Accounts receivable — patients — net of estimated uncollectibles	3,693	27	-	-	3,720
Inventories	69	-	-	-	69
Other current assets	1,609	18	-	-	1,627
Total current assets	40,979	45	13,473	-	54,497
Restricted funds under indenture agreements debt service	-	-	-	2,653	2,653
Noncurrent assets whose use is limited:					
Endowment funds	-	-	720	-	720
Board designated — other	2,651	-	-	-	2,651
Capital assets — net	16,735	34	-	21,902	38,671
Other assets	19	-	1,434	400	1,853
Total assets	$ 60,384	$ 79	$ 15,627	$ 24,955	$ 101,045

(Continued)

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

COMBINING STATEMENT OF NET ASSETS — DISCRETE COMPONENT UNITS
SEPTEMBER 30, 2010
($ in thousands)

	Halifax Hospice, Inc. d/b/a Hospice of Volusia/Flagler	Volusia Health Ventures, Inc. d/b/a Volusia	Halifax Medical Center Foundation, Inc.	Halifax Management System, Inc.	Total
Liabilities and net assets (deficit)					
Current liabilities:					
Accounts payable and accrued liabilities	$ 1,474	$ 87	$ -	$ 472	$ 2,033
Accrued payroll and personal leave time	851	35	-	-	886
Current portion of long-term debt	-	-	-	132	132
Other current liabilities	8	196	96	1,476	1,776
Total current liabilities	2,333	318	96	- 2,080	4,827
Current portion of long-term debt payable from restricted funds under indenture agreements for debt service	-	-	-	1,755	1,755
Long-term debt — less current portion	-	-	-	16,186	16,186
Other liabilities	-	-	1,755	1,090	2,845
Total liabilities	2,333	318	1,851	21,111	25,613
Net assets (deficit):					
Invested in capital assets — net of related debt	16,735	34	-	3,829	20,598
Restricted for debt service	-	-	-	1,090	1,090
Restricted by donors	-	-	6,068	-	6,068
Unrestricted	41,316	(273)	7,708	(1,075)	47,676
Total net assets (deficit)	58,051	(239)	13,776	3,844	75,432
Total liabilities and net assets	$ 60,384	$ 79	$ 15,627	$ 24,955	$ 101,045

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS — DISCRETE COMPONENT UNITS
YEAR ENDED SEPTEMBER 30, 2010
($ in thousands)

	Halifax Hospice, Inc. d/b/a Hospice of Volusia/Flagler	Volusia Health Ventures, Inc. d/b/a Volusia Health Network	Halifax Medical Center Foundation, Inc.	Halifax Management System, Inc.	Total
Operating revenues:					
Net patient service revenue — before provision for bad debt	$ 45,469	$ -	$ -	$ -	$ 45,469
Provision for bad debt	(276)	-	-	-	(276)
Net patient service revenue	45,193	-	-	-	45,193
Other revenue	1,522	904	4,296	2,615	9,337
Total operating revenues	46,715	904	4,296	2,615	54,530
Operating expenses:					
Salaries and benefits	22,845	660	36	-	23,541
Supplies	2,799	5	-	-	2,804
Purchased services	12,500	243	47	-	12,790
Depreciation and amortization	665	1	-	891	1,557
Interest	26	-	-	1,004	1,030
Leases and rentals	1,746	17	-	-	1,763
Other	2,298	(2)	1,224	-	3,520
Total operating expenses	42,879	924	1,307	1,895	47,005
Income (loss) from operations	3,836	(20)	2,989	720	7,525
Nonoperating revenues, expenses, and gains (losses):					
Investment income	2,466	-	-	-	2,466
Donation revenue	1,192	-	-	-	1,192
Net restricted expenditures in excess of designated donations	(63)	-	(300)	-	(363)
Total nonoperating revenues, expenses, and gains (losses)	3,595	-	(300)	-	3,295
Increase (decrease) in net assets	7,431	(20)	2,689	720	10,820
Net assets (deficit) at beginning of year	50,620	(219)	11,087	3,124	64,612
Net assets (deficit) at end of year	$ 58,051	$ (239)	$ 13,776	$ 3,844	$ 75,432

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

SCHEDULE OF NET ASSETS — OBLIGATED GROUP
SEPTEMBER 30, 2010
(In thousands)

Assets		
Current assets:		
Cash and cash equivalents	$	60,373
Investments		127,311
Current assets whose use is limited:		
Trustee-held self-insurance funds		1,790
Accounts receivable — patients, net of estimated uncollectibles of $54,312		40,896
Inventories		10,798
Other current assets		12,282
Total current assets		253,450
Restricted funds under indenture agreements for debt service		20,331
Noncurrent assets whose use is limited:		
Board-designated funded depreciation		145,291
Capital assets — net		344,677
Investment in affiliates		68,789
Other assets		14,144
Deferred outflow swap		23,839
Total assets	$	870,521

See notes to schedules. (Continued)

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

SCHEDULE OF NET ASSETS — OBLIGATED GROUP
SEPTEMBER 30, 2010
(In thousands)

Liabilities and Net Assets	
Current liabilities:	
Accounts payable and accrued liabilities	$ 43,316
Accrued payroll and personal leave time	15,658
Current portion of accrued self-insurance liability	6,514
Other current liabilities	7,448
Total current liabilities	72,936
Long-term debt — less current portion	344,521
Accrued self-insurance liability — less current portion	5,320
Other liabilities	5,231
Long-term value of swap	23,839
Total liabilities	451,847
Net assets:	
Invested in capital assets — net of related debt	53,695
Unrestricted	364,979
Total net assets	418,674
Total liabilities and net assets	$ 870,521

See notes to schedules.

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - OBLIGATED GROUP
YEAR ENDED SEPTEMBER 30, 2010
(In thousands)

Operating revenues:	
Net patient service revenue	$ 452,509
Provision for bad debt	(86,407)
Net patient service revenue — after provision for bad debt	366,102
Ad valorem taxes	34,560
Other revenue	12,698
Total operating revenues	413,360
Operating expenses:	
Salaries and benefits	205,846
Supplies	75,461
Purchased services	40,731
Depreciation and amortization	21,543
Interest	18,425
Ad valorem tax-related expenses	10,538
Leases and rentals	12,779
Other	26,546
Total operating expenses	411,869
Income from operations	1,491
Nonoperating revenues, expenses, and gains (losses):	
Investment income	11,100
Donation revenue	149
Nonoperating gains (losses) — net	(114)
Impairment loss on building	(5,792)
Income from affiliate	10,820
Total nonoperating revenues, expenses, and gains	16,163
Gain on the sale of discontinued operations	4,756
Increase in net assets	22,410
Net assets — beginning of year	379,606
Cumulative effect of change in accounting	16,658
Net assets — beginning of year — as adjusted	396,264
Net assets — end of year	$ 418,674

See notes to schedules.

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

NOTE TO SCHEDULES — OBLIGATED GROUP
YEAR ENDED SEPTEMBER 30, 2010

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Obligated Group — The Medical Center and Holdings are the only members of the Obligated Group. The Medical Center has made investments in entities which are expected to produce income, appreciation in value, or other economic benefit. These affiliates include Hospice of Volusia/Flagler, Volusia Health Ventures, Inc. d/b/a Volusia Health Network, Halifax Medical Center Foundation, Inc., and Halifax Management System, Inc. Under the provisions of the Medical Center's Master Trust Indenture ("MTI"), dated June 1, 2006, by and between the Medical Center and Wells Fargo Bank, National Association, investments in affiliates are accounted for under the equity method. The net assets invested in capital assets — net of related debt, and unrestricted net assets of the affiliates are included in investment in affiliates on the schedule of net assets and income from affiliates is separately disclosed on the schedule of revenues, expenses, and changes in net assets. In accordance with the MTI, the Obligated Group does not have ownership rights to the affiliates' donor-restricted net assets; therefore, they are excluded from investments in affiliates.

The affiliates are not members of the Obligated Group and are not required to pay operating expenses of the Obligated Group. In addition, except in the event of or to cure a default, affiliates are not required to make any payments with respect to the outstanding indebtedness of the Medical Center.

OTHER REPORT

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Board of Commissioners
Halifax Hospital Medical Center d/b/a
Halifax Health
Daytona Beach, Florida

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of Halifax Hospital Medical Center d/b/a Halifax Health ("Halifax"), as of and for the year ended September 30, 2010, which collectively comprise Halifax's basic financial statements and have issued our report thereon dated January 10, 2011 (which report includes an explanatory paragraph referring to Halifax's adoption of Governmental Accounting Standards Board Codification Section D40 – *Derivative Instruments*, on October 1, 2009). Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Other auditors audited the financial statements of Halifax Management Systems, Inc. (a discrete component unit) and the fiduciary activities of Halifax as described in our report on Halifax's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Halifax's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Halifax's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Halifax's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Halifax's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of the Board of Commissioners, Audit Committee, management, and Auditor General, State of Florida, and is not intended to be, and should not be, used by anyone other than these specified parties.

January 10, 2011

Audited Financial Statements: Fiscal Year 2009

HALIFAX HEALTH

Halifax Hospital Medical Center
d/b/a Halifax Health

Financial Statements, Required Supplementary Information, Additional Information and Independent Auditors' Reports Year Ended September 30, 2009

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

YEAR ENDED SEPTEMBER 30, 2009

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HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

YEAR ENDED SEPTEMBER 30, 2009

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INDEPENDENT AUDITORS' REPORT

To the Honorable Board of Commissioners
Halifax Hospital Medical Center d/b/a
Halifax Health
Daytona Beach, Florida

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Halifax Hospital Medical Center d/b/a Halifax Health ("Halifax"), as of and for the year ended September 30, 2009, which collectively comprise Halifax's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Halifax's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Halifax Management System, Inc. (HMS) (a discrete component unit), which statements reflect total assets constituting 27.3% of the aggregate discretely presented component units' total assets as of September 30, 2009, and total operating revenues constituting 4.7% of the aggregate discretely presented component units' total operating revenues for the year then ended, and we did not audit the financial statements of Halifax's fiduciary activities as of September 30, 2009, and for the year then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for HMS and Halifax's fiduciary activities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Halifax's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the aggregate discretely presented component units, and the fiduciary activities of Halifax, as of September 30, 2009, and the respective changes in financial position and cash flows, where applicable thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3–12 and the required supplementary information on pages 48–50, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of Halifax's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Halifax's basic financial statements. The additional information on pages 52–58, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of Halifax's management. The additional information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2010, on our consideration of Halifax's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

January 13, 2010

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEAR ENDED SEPTEMBER 30, 2009

INTRODUCTION

This section of the Halifax Hospital Medical Center ("Medical Center") d/b/a Halifax Health annual financial report provides an overview of Halifax Health and management's discussion and analysis of the organization for the fiscal year ended September 30, 2009. Please read this analysis in conjunction with the basic financial statements.

OVERVIEW

The Medical Center is an independent special taxing district of the State of Florida with all the powers of a body corporate. The Medical Center's geographic territory is located in northeastern Volusia County, Florida, primarily including the cities of Daytona Beach, Ormond Beach, Holly Hill and parts of Port Orange.

The current enabling act of the Medical Center was passed by a special act of the Florida Legislature as Chapter 2003-374, Laws of Florida (the "Act"), which codified all prior laws that established the Medical Center as a special taxing district, a public body corporate and politic of the State of Florida. The Medical Center was originally created in 1925 under the name Halifax Hospital District by Chapter 112.72, Laws of Florida, 1925. The Medical Center's Board of Commissioners is empowered to levy ad valorem taxes for operating expenses, capital outlays, and other purposes. Pursuant to the Act, the Medical Center has all the powers of a body corporate, including, but not limited to, the power to establish, construct, operate and maintain such hospitals, medical facilities and healthcare facilities and services for the preservation of the public health, for the public good and for the use of the public of the Medical Center, the power to enter into contracts, borrow money, establish for-profit and not-for-profit corporations, the power to acquire, purchase, hold, lease and convey real and personal property, and the power of eminent domain.

The Medical Center owns and operates three hospital facilities under one license. The main campus of the Medical Center, located in Daytona Beach, is the inpatient referral center, a Level II neonatal intensive care center and a Level II, state-certified, trauma center offering open-heart surgery, neurosurgery and other specialty inpatient and outpatient services. The Port Orange campus, located ten miles south of the main campus, is a community hospital providing a broad range of services to the residents in Port Orange and southeast Volusia County. The Halifax Behavioral Services ("HBS") campus (two miles north of the main campus) provides child and adolescent psychiatric services. The Medical Center is licensed by the Agency for Health Care Administration to operate with 764 beds and 33 bassinets. The licensed beds by location are set forth in Table 1:

Table 1 — Medical Center Licensed Beds by Location

	Licensed Beds
Main Campus	654
Port Orange Campus	80
HBS Campus	30
Total	764

OVERVIEW (CONTINUED)

In addition to its inpatient facilities, the Medical Center operates outpatient centers in Daytona Beach, Port Orange and Ormond Beach.

The Medical Center has established not-for-profit corporations ("Component Units" or "Affiliates") to assist in carrying out its purpose to provide healthcare and related services to the community. The Component Units are legally separate organizations for which the Medical Center is financially accountable for which the nature and significance of their relationship with the Medical Center are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete**.** The Component Units under the Medical Center's control are:

- East Volusia Health Services, Inc. ("EVHS")
- HH Holdings, Inc. ("Holdings")
- Halifax Healthy Families Corporation d/b/a Healthy Communities
- Halifax Hospice, Inc. d/b/a Hospice of Volusia/Flagler ("Hospice")
- Halifax Management System, Inc. ("HMS")
- Halifax Medical Center Foundation, Inc. ("Foundation")
- Halifax Staffing, Inc. ("Staffing")
- Patient Business & Financial Services, Inc. ("PBFS")
- Volusia Health Ventures, Inc. d/b/a Volusia Health Network ("VHN")

On December 31, 2008 the Medical Center sold Florida Health Care Plans, Inc. ("FHCP") to Blue Cross Blue Shield of Florida for $85.0 million, of which $80.0 million was payable at closing and the remaining $5.0 million, non-contingent payment is due on December 31, 2010 (the "Purchase Price"). In addition to the purchase price, Holdings retained various strategically located properties with a combined book value of approximately $12.0 million and excess cash of approximately $56.1 million.

Operating revenues prior to the sale for the period October 1, 2008 through December 31, 2008 for FHCP are reported in the Medical Center as revenues from discontinued operations. Operating expenses prior to the sale for the period October 1, 2008 through December 31, 2008 for FHCP are reported in the Medical Center as expenses from discontinued operations.

The sale proceeds and retained assets are reported in Holdings. See note 16 for more information. In prior years FHCP was presented as a discrete component unit. Holdings is presented as a blended component unit.

The Medical Center, together with the Component Units, operates as Halifax Health. See note 1 of the audited financial statements for a description of each Component Unit.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report includes the independent auditors' report, management's discussion and analysis, and the basic financial statements for Halifax Health. The basic financial statements are intended to describe the net assets, results of operations, sources and uses of cash and the capital structure of Halifax Health. Fiduciary fund statements for the pension trust fund are also provided as part of the basic financial statements. The basic financial statements contain notes providing detailed information for select areas of the basic financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Reporting Entity — The Medical Center is considered the primary governmental unit for financial reporting purposes. The Component Units in the accompanying basic financial statements are presented in accordance with Government Accounting Standards Board ("GASB") Statement No. 14 and No. 39. Halifax Hospice, Inc., Halifax Management System, Inc., Halifax Medical Center Foundation, Inc. and Volusia Health Ventures, Inc. (collectively, the Discrete Component Units) are legally separate organizations and as such, are presented separately in the accompanying financial statements. East Volusia Health Services, Inc., HH Holdings, Inc., Halifax Healthy Families Corporation, Halifax Staffing, Inc. and Patient Business & Financial Services, Inc. (collectively, the "Blended Component Units") were established to provide administrative and other services to the Medical Center. As such, these entities are included within the financial results of the Medical Center.

Basic Financial Statements — The basic financial statements offer short-term and long-term financial information about the Medical Center and Halifax Health's activities. The statement of net assets includes all of the assets and liabilities and provides information about the nature and amounts of investments in resources and obligations to creditors. Furthermore, the statement of net assets provides a basis for evaluating capital structure, liquidity, and financial flexibility.

All of the revenues and expenses for the year ended September 30, 2009 are accounted for in the statement of revenues, expenses and changes in net assets. This statement measures annual financial success and can be used to determine if the Medical Center and Halifax Health have recovered their costs through their net patient revenues, ad valorem taxes, and other sources of revenue.

The final required statement is the statement of cash flows. This statement reports cash receipts, payments, and net changes in cash resulting from operating activities, noncapital financing activities, capital and related financing activities, and investing activities. This statement highlights the sources and uses of cash and changes in cash balances over the reporting period.

In addition to the aforementioned content, the basic financial statements contain notes that provide information to assist users in understanding the basic statements. Furthermore, required supplementary information including unaudited schedules of funding progress for the pension trust fund, and the Halifax Insurance subsidy OPEB and the Halifax Implicit Rate Subsidy OPEB are included as part of the basic financial statements.

Additional Information — A combining statement of net assets and combining statement of revenues, expenses and changes in net assets are included as additional information for the Discrete Component Units. A schedule of net assets and schedule of revenues, expenses, and changes in net assets are included as additional information for the Obligated Group.

COMMUNITY BENEFIT

Halifax Health provides a continuum of healthcare services to the community through a network of organizations including a tertiary hospital, a community hospital, a psychiatric service, a cancer treatment center with four outreach locations, the area's largest hospice and a preferred provider organization. Halifax Health is also involved in numerous outreach programs that help meet the public health needs of the community. Halifax Health provided an estimated $39.5 million in net community benefits to the community it serves in fiscal year 2009.

NET ASSETS AND CHANGES IN NET ASSETS

Net assets are an indicator of the financial health of an organization. Increases in net assets over time indicate that financial conditions are improving while decreases in net assets over time signify worsening financial conditions. A summary of the Medical Center, its discrete component units and Halifax Health's statements of net assets at September 30, 2009 and 2008 are presented in Table 2.

Table 2 — Net Assets
September 30, 2009 and 2008
(In thousands)

	September 30, 2009			September 30, 2008		
	Medical Center	Discrete Component Units	Halifax Health Total	Medical Center	Discrete Component Units	Halifax Health Total
Cash and investments	$ 180,120	$ 43,161	$ 223,281	$ 38,301	$ 129,244	$ 167,545
Assets whose use is limited	149,241	5,936	155,177	191,193	6,754	197,947
Accounts receivable	44,784	3,620	48,404	46,326	6,527	52,853
Other assets	40,628	2,285	42,913	47,453	8,623	56,076
Capital assets	359,113	39,585	398,698	290,042	66,266	356,308
Total assets	$ 773,886	$ 94,587	$ 868,473	$ 613,315	$ 217,414	$ 830,729
Accounts payable and accrued liabilities	$ 48,165	$ 2,175	$ 50,340	$ 40,382	$ 3,473	$ 43,855
Other liabilities	59,795	4,162	63,957	44,105	38,891	82,996
Notes payable		1,980	1,980	300	2,080	2,380
Long-term debt - including current portion	344,289	21,658	365,947	344,042	30,029	374,071
Total liabilities	$ 452,249	$ 29,975	$ 482,224	$ 428,829	$ 74,473	$ 503,302
Net assets—invested in capital assets-net of related debt	$ 92,093	$ 19,729	$ 111,822	$ 67,272	$ 36,237	$ 103,509
Net assets—restricted by donors	-	6,433	6,433	-	6,715	6,715
Net assets—restricted for debt service	-	1,047	1,047	-	935	935
Net assets—unrestricted	229,544	37,403	266,947	117,214	99,054	216,268
Total net assets	321,637	64,612	386,249	184,486	142,941	327,427
Total net assets and liabilities	$ 773,886	$ 94,587	$ 868,473	$ 613,315	$ 217,414	$ 830,729

Cash and investments increased by $55.7 million for Halifax Health and increased by $141.8 million for the Medical Center from fiscal year 2008 levels due principally to the sale of FHCP. Assets whose use is limited decreased by $42.7 million for Halifax Health and by $42.0 million for the Medical Center from fiscal year 2008 levels as bond proceeds were expended to fund capital projects (primarily new emergency department and inpatient tower).

Decreases in patient volumes and the sale of FHCP led to a decrease in Halifax Health's accounts receivable by $4.4 million from fiscal year 2008 levels. The sale of FHCP also caused other assets to decrease by $13.2 million for Halifax Health from fiscal year 2008.

The continued construction of a new emergency department and inpatient tower as well as other renovation and equipment purchases led to increases in capital assets of $42.4 million for Halifax Health and $69 million for the Medical Center from prior year levels.

Halifax Health's accounts payable and accrued liabilities increased by $6.5 million compared to September 30, 2008 due to the timing of payments at fiscal year-end and payments due to third parties. Other liabilities decreased by $19 million from fiscal year 2008 due primarily to the sale of FHCP.

NET ASSETS AND CHANGES IN NET ASSETS (CONTINUED)

Halifax Health's short-term debt decreased by $0.4 million at September 30, 2009 compared to September 30, 2008, primarily because the Medical Center repaid the balance on a line of credit. Halifax Health's long-term debt, including current portion, amounted to $366.0 million at September 30, 2009 compared to $374.1 million at September 30, 2008. This reduction is the result of the scheduled principal repayments, amortization of bond premiums and discounts and the sale of FHCP.

The Medical Center and Halifax Health's net assets at September 30, 2009 were $321.6 million and $386.2 million, an increase of $137.2 million ($84.4 million as a net asset transfer from a discrete component unit to a blended component unit assumed to have occurred at the beginning of fiscal year 2009 for financial reporting purposes and related to the sale of FHCP) and $58.8 million from September 30, 2008, respectively. The increase in net assets resulted from earnings related to the provision of patient care and other healthcare-related services and from the sale of FHCP. The sale proceeds and retained assets are reported in Holdings. See note 16 for more information.

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NET ASSETS AND CHANGES IN NET ASSETS (CONTINUED)

Table 3 — Changes in Net Assets
Years Ended September 30, 2009 and 2008
(In thousands)

	September 30, 2009			September 30, 2008		
	Medical Center	Discrete Component Units	Halifax Health Total	Medical Center	Discrete Component Units	Halifax Health Total
Operating revenue:						
Net patient service revenue — before provision for bad debt	$ 462,713	$ 46,749	$ 509,462	$ 468,390	$ 43,698	$ 512,088
Provision for bad debt	(88,637)	(198)	(88,835)	(91,341)	(284)	(91,625)
Net patient service revenue	374,076	46,551	420,627	377,049	43,414	420,463
Revenues from discontinued operations	81,289	-	81,289	-	349,857	349,857
Other revenue	54,547	8,686	63,233	61,503	4,054	65,557
Total operating revenue	509,912	55,237	565,149	438,552	397,325	835,877
Operating expenses:						
Salaries and benefits	222,974	23,898	246,872	214,417	22,685	237,102
Supplies	80,356	2,748	83,104	85,644	2,828	88,472
Purchased services	36,653	13,233	49,886	50,503	13,311	63,814
Depreciation and amortization	14,407	1,536	15,943	11,860	1,418	13,278
Interest	11,063	1,121	12,184	11,096	1,255	12,351
Expenses from discontinued operations	76,982	-	76,982	-	330,265	330,265
Other	54,638	9,500	64,138	52,469	4,672	57,141
Total operating expense	497,073	52,036	549,109	425,989	376,434	802,423
Income from operations	12,839	3,201	16,040	12,563	20,891	33,454
Nonoperating revenues, expenses and gains (losses):						
Investment income (loss)	3,673	1,534	5,207	5,972	(2,626)	3,346
Donation revenue	1,086	1,248	2,334	284	1,410	1,694
Nonoperating gains (losses), net	(5)	171	166	(62)	-	(62)
Distribution from (to) affiliate	-	-	-	9,475	(9,475)	-
Net restricted donations	-	-	-	-	-	-
in excess of designated expenditures	-	(70)	(70)	-	-	-
Change in fair value of swap liability	(7,419)	-	(7,419)	(6,354)	-	(6,354)
Loss on redemption of bonds	-	-	-	(3,168)	-	(3,168)
Total nonoperating revenues, expenses and gains (losses)	(2,665)	2,883	218	6,147	(10,691)	(4,544)
Gain on the sale of discontinued operations	42,564	-	42,564	-	-	-
Change in net assets	52,738	6,084	58,822	18,710	10,200	28,910
Net assets, beginning of year	184,486	142,941	327,427	165,776	132,741	298,517
Adjustment to beginning balance (See Note 1)	84,413	(84,413)	-	-	-	-
Net assets, beginning of year — as adjusted	268,899	58,528	327,427	165,776	132,741	298,517
Net assets, end of year	$ 321,637	$ 64,612	$ 386,249	$ 184,486	$ 142,941	$ 327,427

MANAGEMENT'S DISCUSSION OF RECENT FINANCIAL PERFORMANCE

Management's focus during fiscal year 2009 was to improve operational processes and control operating expenses in an effort to improve Halifax Health's overall financial position. Total net assets increased by $137.2 million ($84.4 million as a net asset transfer from a discrete component unit to a blended component unit assumed to have occurred at the beginning of fiscal year 2009 for financial reporting purposes and related to the sale of FHCP) for the Medical Center and $58.8 million for Halifax Health, an increase of 74.3% and 18.0% compared to prior year's net assets, respectively. The following discussions will concentrate on the changes in net assets of the Medical Center and, where applicable, reference activities of Halifax Health.

Patient Volumes

Table 4 — Medical Center & Discrete Component Unit Utilization Statistics
Years Ended September 30, 2009 and 2008

	2009	2008
Medical Center Activity:		
Admissions	26,650	28,535
Patient days	132,732	142,491
Average daily census	364	389
Total outpatient visits	306,312	311,047
Observation patient day equivalents	6,875	5,057
Other Halifax Health Activity:		
Hospice visits	215,092	205,554

The Medical Center's inpatient admissions decreased by 1,885 admissions (6.6%) compared to 2008 while patient days decreased by 9,759 (6.8%) compared to 2008. The decreases in admissions and patient days led to a decrease in the Medical Center's average daily census by 25 patients per day from the prior period. The decreases in inpatient volume are due to changes in treatment protocols from the inpatient setting to the outpatient setting. This change is reflected in the 1,818 observation patient day equivalent increase (36%) compared to 2008. Total outpatient volume at the Medical Center decreased by 1.5% compared to the prior-year.

Hospice volumes increased by 4.6% from the prior year. This increase is primarily due to increases in admissions and growth in length of stay.

Operating Revenues

The Medical Center experienced a decrease in net patient service revenue of 0.8% and a decrease in other revenue of 11.3% from prior-year levels. Net patient service revenue at the Medical Center decreased from $377.0 million in fiscal year 2008 to $374.1 million in fiscal year 2009 due to volume decreases and changes in treatment protocols from the inpatient setting to the outpatient setting. Other revenue decreased from $61.5 million in fiscal year 2008 to $54.5 million in fiscal year 2009 primarily due to decreases in ad valorem tax revenue resulting from reductions in the Medical Center's tax base and a decrease in the millage rate from 2.5 mills to 2.25 mills.

MANAGEMENT'S DISCUSSION OF RECENT FINANCIAL PERFORMANCE (CONTINUED)

Operating Expenses

Management continues to pursue and implement a disciplined approach to cost management across the system. Total operating expenses for Halifax Health decreased by $253.3 million from fiscal year 2008 to 2009. This is predominantly due to the sale of FHCP. The remaining decrease is a combination of decreases in expenses at the Medical Center from targeted savings and lower volumes and increases in expenses at the discrete component units due to volume increases and Foundation planned giving.

Salaries and benefits for the Medical Center increased from fiscal year 2008 by $8.6 million to $223.0 million during fiscal year 2009. Salaries increased as a result of scheduled merit increases and employing previously contracted emergency department physicians but the increase was moderated by the Medical Center's ability to flex staffing downward to appropriate levels for the decreased volume of patients being treated. Management controlled fixed salary costs, in part, by managing staffing levels via attrition and rebalancing the workforce.

Supplies decreased from fiscal year 2008 by $5.3 million to $80.4 million in fiscal year 2009 for the Medical Center. This reduction was due, in part, to decreases in pharmaceutical expenses as the Medical Center was able to participate in the governmental 340b pricing program. In addition to this, the Medical Center engaged a consulting firm to help reduce supply expense, particularly physician preference items. A Technology Assessment committee was also formed to review all new supply products for appropriateness. The Medical Center continues to participate in a group purchasing organization and utilizes state contracts to obtain the best pricing available.

Purchased services decreased by approximately $13.9 million for the Medical Center as the emergency department physicians transitioned from contracted services to employees.

Depreciation and amortization increased by approximately $2.5 million for the Medical Center during fiscal year 2009 to $14.4 million. This increase is related to new construction and new equipment purchases.

Other expenses increased by approximately $2.2 million from fiscal year 2008 primarily due to increased utility costs associated with the construction of the new emergency department and inpatient tower.

Nonoperating Revenues, Expenses and Gains (Losses)

Investment income for the Medical Center decreased by $2.3 million from fiscal year 2008 to fiscal year 2009 due to poor performance on investments. Investment income includes approximately $0.6 million in unrealized gains on investments.

Donation revenue for the Medical Center increased by $0.8 million from fiscal year 2008 to fiscal year 2009. The fair value of the swap decreased by $7.4 million from fiscal year 2008 to fiscal year 2009 related to the fixed-pay interest rate swap liability agreement the Medical Center executed in June 2006 and amended in September 2008. See note 8 of the financial statements for additional information on the swap.

Gain on the Sale of Discontinued Operations (Sale of FHCP)

On December 31, 2008 the Medical Center finalized the sale of FHCP to Blue Cross Blue Shield of Florida. Substantial terms of the sale included: a purchase price of $85.0 million, retaining various strategically located FHCP properties with a book value of approximately $12.0 million and keeping $56.1 million of excess cash. The total gain on the sale was $42.6 million. See note 16 for additional information.

MANAGEMENT'S DISCUSSION OF RECENT FINANCIAL PERFORMANCE (CONTINUED)

Ad Valorem Taxes

For the years ended September 30, 2009 and 2008 ad valorem tax revenues totaled $41.6 million and $50.7 million, respectively. As described in note 1 to the financial statements, the Medical Center annually levies and collects ad valorem taxes for the general support of its operations, as approved by the Board of Commissioners (the "Board").

The Medical Center incurs expenses related to its ad valorem taxes. These expenses include payments to the County and Cities (tax collector and appraiser commissions, Medicaid matching funds and redevelopment taxes) and the costs of non-hospital community health services (physician services, community clinics, prescription drugs, medical supplies, etc.). Ad valorem tax related expenses decreased from $13.7 million in fiscal year 2008 to $12.7 million in fiscal year 2009.

KEY FINANCIAL INDICATORS

The following key financial indicators are for Halifax Health, inclusive of the Blended and Discrete Component Units:

Table 5 — Halifax Health's Key Financial Indicators
Years Ended September 30, 2009 and 2008

	2009	2008
Total margin*	3.3 %	4.1 %
Days cash on hand	218.7	112.2
Unrestricted cash/long-term debt	89.7 %	71.9 %
Long-term debt to capitalization	49.0 %	53.9 %
Total net patient service revenue, before provision for bad debts** (in millions)	$ 509.5	$ 512.1

* Total margin calculated excluding income from discontinued operations, gain on the sale of discontinued operations and change in fair value of swap.

** In accordance with GASB standards, net patient service revenue is reported net of the provision for bad debt. Net patient service revenue before the provision for bad debt is shown to facilitate financial statement comparisons of Halifax with other hospital systems reporting under FASB standards.

Although below the prior year, total margin remained strong at 3.3% in fiscal year 2009. The number of days cash on hand increased from 112.2 days at September 30, 2008 to 218.7 days at September 30, 2009. The increase in days cash on hand reflects the monies received from the sale of FHCP. Unrestricted cash to long-term debt improved as long-term debt decreased and unrestricted cash increased. Debt to capitalization improved as Halifax Health was profitable and long-term debt balances decreased.

RISK FACTORS

The healthcare industry is highly dependent upon a number of factors that could have a significant effect on the future operations and financial condition of the Medical Center and Halifax Health. These factors include, but are not limited to, competition, state and federal regulatory authorities, Medicare and Medicaid laws and regulations, healthcare reform initiatives, environmental laws, technology changes, changes in demand for healthcare services, demographic changes, and managed care contract terms and conditions.

RISK FACTORS (CONTINUED)

As of the date of this report, there are no known facts, decisions, or conditions that are expected to have a significant effect on the net assets or the results of operations, other than:

- Salaries in the healthcare industry continue to be very competitive due to increased costs of attracting and retaining or decreased availability of a sufficient number of physicians, registered nurses and other healthcare professionals.

- The rise in uncompensated care (self-pay and charity patients) continues to be a national, as well as, local concern. The Medical Center continually monitors increases in uninsured and underinsured patients, identifying specific reasons for the increases at the Medical Center and ensuring patients are classified appropriately, based on meeting established Medicaid or charity guidelines.

- The laws and regulations governing the Medicare and Medicaid program are complex and subject to change. As such, changes to these programs could have a negative effect on the financial performance of Halifax Health. Several changes in the Medicare and Medicaid programs are listed below.

    - The Florida legislature passed measures that will result in changes to the Medicaid program. The State of Florida is experiencing budget shortfalls and has elected to institute changes to the Medicaid program that reduce payments and limit recipient access to certain services. The potential impact to the Medical Center is reduced reimbursement and patient volumes.

    - The Medical Center will continue to benefit in 2010 from additional payments made only to disproportionate share hospitals, and those public taxing authority hospitals that assist the state in increasing the amount of matching funds received from the federal government Medicaid program. The benefit will likely be similar to that in fiscal year 2009.

- The State of Florida passed legislation that limits the ability of taxing districts to levy taxes. As an independent special taxing district of the State of Florida, the Medical Center is subject to these changes. The potential impact to the Medical Center is reduced ad valorem tax revenue.

- The slowing of the general economy may have an impact on the ability of state and federal agencies to fund healthcare services. In addition, the general downturn of the economy could have continued impact on patient volumes and the patient's ability to pay.

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HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2009
(In thousands)

	Medical Center	Discrete Component Units	Total (Memorandum Only)
Assets			
Current assets:			
Cash and cash equivalents	$ 176,498	$ 9,825	$ 186,323
Investments	3,622	33,336	36,958
Current assets whose use is limited:			
Trustee-held self-insurance funds	1,824	-	1,824
Accounts receivable — patients — net of estimated uncollectibles of $43,965 and $776 respectively	44,784	3,620	48,404
Inventories	10,578	78	10,656
Other current assets	9,261	95	9,356
Total current assets	246,567	46,954	293,521
Restricted funds under indenture agreements for debt service	20,135	2,653	22,788
Noncurrent assets whose use is limited:			
Board-designated funded depreciation	103,335	-	103,335
Trustee-held funds for capital projects	23,947	-	23,947
Endowment funds	-	720	720
Board-designated- other	-	2,563	2,563
Capital assets — at cost — net	359,113	39,585	398,698
Other assets	20,789	2,112	22,901
Total assets	$ 773,886	$ 94,587	$ 868,473

See notes to financial statements.

(Continued)

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2009
(In thousands)

	Medical Center	Discrete Component Units	Total (Memorandum Only)
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities	$ 48,165	$ 2,175	$ 50,340
Accrued payroll and personal leave time	21,519	873	22,392
Current portion of accrued self-insurance liability	6,907	-	6,907
Current portion of long-term debt	-	125	125
Notes payable	-	1,980	1,980
Other current liabilities	5,712	1,957	7,669
Total current liabilities	82,303	7,110	89,413
Current portion of long-term debt payable from restricted funds under indenture agreements for debt service	-	1,675	1,675
Long-term debt — less current portion	344,289	18,058	362,347
Accrued self-insurance liability — less current portion	6,107	-	6,107
Other liabilities	19,550	3,132	22,682
Total liabilities	452,249	29,975	482,224
Net assets:			
Invested in capital assets — net of related debt	92,093	19,729	111,822
Restricted for debt service	-	1,047	1,047
Restricted by donors	-	6,433	6,433
Unrestricted	229,544	37,403	266,947
Total net assets	321,637	64,612	386,249
Total liabilities and net assets	$ 773,886	$ 94,587	$ 868,473

See notes to financial statements. (Concluded)

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2009
(In thousands)

	Medical Center	Discrete Component Units	Total (Memorandum Only)
Operating revenues:			
Net patient service revenue — before provision for bad debt	$ 462,713	$ 46,749	$ 509,462
Provision for bad debt	(88,637)	(198)	(88,835)
Net patient service revenue	374,076	46,551	420,627
Revenues from discontinued operations (See Note 16)	81,289	-	81,289
Other revenue	54,547	8,686	63,233
Total operating revenues	509,912	55,237	565,149
Operating expenses:			
Salaries and benefits	222,974	23,898	246,872
Supplies	80,356	2,748	83,104
Purchased services	36,653	13,233	49,886
Depreciation and amortization	14,407	1,536	15,943
Interest	11,063	1,121	12,184
Ad valorem tax-related expenses	12,735	-	12,735
Leases and rentals	13,819	1,773	15,592
Expenses from discontinued operations (See Note 16)	76,982	-	76,982
Other	28,084	7,727	35,811
Total operating expenses	497,073	52,036	549,109
Income from operations	12,839	3,201	16,040
Nonoperating revenues, expenses and (losses)/gains:			
Investment income	3,673	1,534	5,207
Donation revenue	1,086	1,248	2,334
Nonoperating (losses)/gains — net	(5)	171	166
Net restricted donations in excess of designated expenditures	-	(70)	(70)
Change in fair value of swap liability	(7,419)	-	(7,419)
Total nonoperating revenues, expenses and gains	(2,665)	2,883	218
Gain on the sale of discontinued operations	42,564	-	42,564
Increase in net assets	52,738	6,084	58,822
Net assets — beginning of year	184,486	142,941	327,427
Adjustment to beginning balance (See Note 1)	84,413	(84,413)	-
Net assets — beginning of year — as adjusted	268,899	58,528	327,427
Net assets — end of year	$ 321,637	$ 64,612	$ 386,249

See notes to financial statements.

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2009
(In thousands)

	Medical Center	Discrete Component Units	Total (Memorandum Only)
Cash flows from operating activities:			
Receipts from third-party payors and patients	$ 388,590	$ 46,526	$ 435,116
Payments to employees	(278,079)	(23,947)	(302,026)
Payments to suppliers	(163,350)	(17,050)	(180,400)
Ad valorem taxes considered financing	41,604	-	41,604
Other receipts	86,971	8,677	95,648
Other payments	(10,568)	(7,146)	(17,714)
Net cash provided by operating activities	65,168	7,060	72,228
Cash flows from noncapital financing activities:			
Proceeds from donations received	1,086	1,462	2,548
Payment of notes payable	(300)	(100)	(400)
Payment of interest on notes payable	(42)	(31)	(73)
Restricted contributions — noncapital	-	(284)	(284)
Transfer (to) from component units	(286)	286	-
Payments for sale of business	(4,920)	-	(4,920)
Proceeds from sale of business, less cash sold	29,578	-	29,578
Nonoperating (losses) gains	(5)	171	166
Net cash provided by noncapital financing activities	25,111	1,504	26,615
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(63,073)	(2,291)	(65,364)
Principal paid on long-term debt	(6,700)	(1,718)	(8,418)
Principal paid on capital lease obligations	(139)	-	(139)
Payment of interest on long-term debt	(16,697)	(1,115)	(17,812)
Net cash used in capital and related financing activities	(86,609)	(5,124)	(91,733)
Cash flows from investing activities:			
Investment income — net	4,315	1,534	5,849
Purchase of investments and assets whose use is limited	(918,633)	(20,828)	(939,461)
Proceeds from sales and maturities of investments and assets whose use is limited	961,776	17,080	978,856
Other	-	214	214
Net cash provided by (used in) investing activities	47,458	(2,000)	45,458
Net increase in cash and cash equivalents	51,128	1,440	52,568
Cash and cash equivalents — beginning of year	34,169	99,586	133,755
Adjustment to beginning balance (See Note 1)	91,201	(91,201)	-
Cash and cash equivalents — beginning of year — as adjusted	125,370	8,385	133,755
Cash and cash equivalents — end of year	$ 176,498	$ 9,825	$ 186,323

(Continued)

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2009
(In thousands)

	Medical Center	Discrete Component Units	Total (Memorandum Only)
Reconciliation of income from operations to net cash provided by operating activities:			
Income from operations	$ 12,839	$ 3,202	$ 16,041
Adjustments to reconcile income from operations to net cash provided by operating activities:			
Interest expense considered capital and related financing activity	10,838	1,090	11,928
Interest expense considered noncapital financing activity	42	31	73
Depreciation and amortization	14,816	1,436	16,252
Amortization of bond issue costs	559	100	659
Amortization of discount	42		42
Amortization of premium	(142)	-	(142)
Amortization of loss on defeased bonds	347	-	347
Income from equity-method investment	(1,765)	-	(1,765)
Provision for bad debts	88,723	198	88,921
Changes in assets and liabilities:			
Accounts receivable — patients — net	(85,694)	(225)	(85,919)
Inventories and other current assets	(599)	463	(136)
Other assets	2,328	1,344	3,672
Accounts payable and accrued liabilities	21,461	123	21,584
Other current liabilities	-	505	505
Other liabilities	1,373	(1,207)	166
Net cash provided by operating activities	$ 65,168	$ 7,060	$ 72,228
Supplemental disclosure of noncash investing, capital and financing activities:			
Property and equipment unpaid and included in accounts payable	$ 2,067	$ 84	$ 2,151

See notes to financial statements. (Concluded)

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

STATEMENT OF FIDUCIARY NET ASSETS
SEPTEMBER 30, 2009
(In thousands)

Assets:	
Investments — at fair value:	
Money market fund	$ 2,440
Fixed income fund	55,323
Equity fund	22,248
Common stock	66,258
Total investments	146,269
Contribution receivable	1,825
Accrued income	86
Net assets held in trust for pension benefits	$ 148,180

See notes to financial statements.

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED SEPTEMBER 30, 2009
(In thousands)

Additions:	
Investment results:	
Appreciation in fair value of investments	$ 4,391
Interest and dividends	5,076
Investment expenses	(283)
Total investment income	9,184
Employers' contributions	14,593
Total additions	23,777
Deductions:	
Administrative expenses	46
Benefits paid directly to participants	9,491
Total deductions	9,537
Increase in net assets held in trust for pension benefits	14,240
Net assets held in trust for pension benefits — beginning of year	133,940
Net assets held in trust for pension benefits — end of year	$ 148,180

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity — Halifax Hospital Medical Center ("Medical Center") d/b/a Halifax Health was created by a special act of the Legislature of the State of Florida, Chapter 2003-374, Laws of Florida, as a special taxing district, a public body corporate and politic of the State of Florida and successor to Halifax Hospital District created pursuant to Chapter 112.72, Laws of Florida, Special Acts of 1925. The Medical Center's Board of Commissioners ("Board") is empowered to levy ad valorem taxes for operating expenses, capital outlays, and other purposes.

The Medical Center is a full service, accredited, acute care hospital licensed to operate 764 beds. The Medical Center owns and operates three hospital facilities under one license and several ambulatory facilities. The main campus of the Medical Center is the inpatient referral center, providing a Level II neonatal intensive care, a Level II state-certified trauma center offering open-heart surgery, neurosurgery, and other specialty inpatient and outpatient services.

The Port Orange campus, located 10 miles south of the main campus, is a community hospital providing a broad range of services to the residents of Port Orange and Southeast Volusia County.

The Halifax Behavioral campus, located two miles north of the main campus, provides child and adolescent psychiatric services to the residents of Volusia and Flagler Counties.

As required by accounting principles generally accepted in the United States of America ("GAAP"), these financial statements represent the primary government (the "Medical Center") and its component units. The component units discussed below are included because of the significance of their operational or financial relationships with the Medical Center.

Component Units — East Volusia Health Services, Inc. ("EVHS"), HH Holdings, Inc. ("Holdings"), f/k/a Florida Health Care Plans, Inc. (see Note 16), Halifax Healthy Families Corporation d/b/a Healthy Communities ("Healthy Communities"), Halifax Hospice, Inc. d/b/a Hospice of Volusia/Flagler ("Hospice"), Halifax Management System, Inc. ("HMS"), Halifax Medical Center Foundation, Inc. ("Foundation"), Halifax Staffing, Inc. ("Staffing"), Patient Business & Financial Services, Inc. ("PBFS") and Volusia Health Ventures, Inc. d/b/a Volusia Health Network ("VHN") are legally separate organizations for which the Medical Center is financially accountable for which the nature and significance of their relationship with the Medical Center are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Accordingly, these organizations represent blended or discrete component units of the Medical Center.

Blended Component Units — EVHS, Holdings, Healthy Communities, PBFS and Staffing were established primarily to provide administrative and other services for and on behalf of the Medical Center. These entities are blended within the financial results of the Medical Center.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

EVHS is a not-for-profit corporation organized under the laws of Florida. The Medical Center is the sole member of EVHS. EVHS was organized for the purpose of entering into joint-venture agreements to enhance the access and quality of patient care provided to the community.

Holdings is a not-for-profit corporation organized under the laws of Florida that was established to manage the remaining net assets that resulted from the sale of Florida Health Care Plan ("FHCP") (see Note 16). The remaining net assets of FHCP, in the amount of $84.4 million, were transferred from a discrete component unit to a blended component unit. The transfer, assumed to have occurred as of the beginning of fiscal year 2009 for financial reporting purposes, is reported as an adjustment to the Medical Center's beginning statement of net assets. Holdings invests approximately $129.8 million of cash and investments as well as manages various strategically located properties with a combined book value of approximately $12.0 million.

Healthy Communities is a not-for-profit corporation organized under the laws of Florida, which coordinates the delivery of education, health resources, and direct assistance to the community. The Medical Center is the sole member of Healthy Communities. The services provided by Healthy Communities include administering Healthy Kids (child health insurance program), facilitating the provision of preventive care, and providing education or other activities relating to the general welfare of all children in Volusia and Flagler counties.

PBFS is a not-for-profit corporation that operates the patient accounting services for the Medical Center and employs the staff for this function. The Medical Center is the sole member of PBFS.

Staffing is a not-for-profit corporation organized under the laws of Florida, formed for the purpose of providing individuals to staff and manage the Medical Center and any other related entities and facilities. The Medical Center is the sole member of Staffing and has an identical governing board. The Medical Center is obligated to reimburse Staffing for all costs incurred in meeting its obligations under an agreement between the parties.

Discrete Component Units — Foundation, Hospice, HMS and VHN, for the purpose of financial statement presentation, are shown as discrete component units. The combined statements of the discrete component units are shown in the additional information section following Halifax Health's financial statements. Separate financial statements for the individual discrete component units, except VHN and Foundation, may be obtained directly from the Medical Center upon request.

The Foundation was organized in 1988 as a not-for-profit corporation under the laws of Florida. The Foundation is the exclusive fundraising organization for the Medical Center.

Hospice was organized in 1984 as a not-for-profit corporation under the laws of Florida. Hospice provides palliative medical care and treatment to patients who have less than six months to live via three inpatient care centers and by offering in-home hospice services. The Port Orange care center is a 16-bed inpatient care center located in Port Orange. Hospice also operates an 18-bed care center in Orange City. The Southeast Volusia care center is a 12-bed facility located in Edgewater.

HMS was organized in 1984 as a not-for-profit corporation under the laws of Florida. HMS owns and leases to the Medical Center two ambulatory facilities and one hospital facility purchased in 1998 from a third-party developer. Facilities located in Ormond Beach and on the Medical Center's main campus in Daytona Beach provide outpatient hospital services and medical offices. The third facility, located in Port Orange, is an 80-bed inpatient hospital.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

VHN was organized in 1984 as a not-for-profit corporation under Florida Law. VHN operates a preferred provider network of physicians and hospitals in the service area and offers the network and certain related services to employers that are self-insured for health coverage of their employees.

Fiduciary Fund Financial Statements — The Pension Trust Fund (the "Pension Fund"), a fiduciary fund, is used to account for net assets held in trust for the pension benefits of employees of Staffing and Hospice. The Pension Fund is presented separately in the fiduciary fund financial statements.

Accounting Standards — Pursuant to Governmental Accounting Standards Board ("GASB") Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,* Halifax Health has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board ("FASB"), issued on or before November 30, 1989, and those issued subsequent to November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The financial statements of Halifax Health have been prepared on the accrual basis of accounting.

"Total (Memorandum Only)" Columns — Total columns in the financial statements are noted "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with GAAP. Certain intercompany eliminations have not been made in the summarization of this data. As of September 30, 2009, there is approximately $1.9 million due to the Medical Center from the discrete component units included in other current assets and other current liabilities on the accompanying statement of net assets.

Cash and Cash Equivalents — Halifax considers all unrestricted highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Investments — Investments are reported at fair value or amortized cost, if not materially different from fair value. Interest, dividends, and gains and losses, both realized and unrealized, are recorded as nonoperating revenue in the statement of revenues, expenses and changes in net assets when earned.

Net Patient Accounts Receivable — Net patient accounts receivable are reported at estimated net realizable amounts due from patients, third-party payors, and others for services rendered. The provision for bad debts is based on management's assessment of historical and expected net collections, considering business and economic conditions, trends in health care coverage, and other collection indicators. Throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon these trends. The results of this review are then used to make any modifications to the provision for bad debts and to establish an appropriate estimated allowance for uncollectible accounts. Specific patient accounts identified as uncollectible are written off to the allowance for uncollectible accounts.

Assets Whose Use Is Limited — Assets whose use is limited includes assets held for self-insurance funds, trustee-held funds for capital projects, Board-designated funded depreciation, and Board-designated assets set aside for other purposes.

Inventories — Inventories consist of supplies, which are stated at the lower of cost (on a first-in, first-out basis) or market.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative Instruments — On June 22, 2006, the Medical Center entered into an interest rate swap derivative instrument ("Swap"). The Swap agreement was amended September 15, 2008. Although the Swap serves as an economic hedge of interest cash flow on its long-term debt, the Medical Center does not apply hedge accounting to its derivative instruments as defined pursuant to FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. As a result, changes in fair value of the swap liability are reported in the Medical Center's statement of revenues, expenses and changes in net assets.

The Medical Center follows the disclosure provisions of GASB Technical Bulletin ("TB") No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets,* related to its derivative transactions. GASB TB 2003-1 requires certain disclosures regarding the objective of the derivative, significant terms, fair value at the reporting date, and risks.

Depreciation — Halifax Health follows the policy of depreciating all property and equipment on a straight-line basis over the estimated useful lives of the related assets. Estimated useful lives range from five to 20 years on land improvements, 10 to 40 years on buildings, 10 to 20 years on fixed equipment, and three to 20 years on major movable equipment.

Intangibles — Bond issuance costs are amortized over the period the bonds are outstanding using the effective interest method. Amortization expense related to bond issuance costs is included in depreciation and amortization expense in the accompanying statement of revenues, expenses and changes in net assets.

Personal Leave Time — In place of holiday, sick and vacation time, Halifax Health utilizes a single category called personal leave time. Personal leave time accrued but not used at September 30, 2009, is included in accrued payroll and personal leave time in the accompanying statement of net assets.

Pension Plan — Halifax Health maintains a cost-sharing, multiple-employer, noncontributory defined benefit pension plan (the "Plan") that covers certain employees of the two participating employers. The Plan is accounted for in accordance with GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. Contributions are made based on the minimum recommended contribution as determined by actuarial valuation. The Plan is considered a governmental plan exempt from Employee Retirement Income Security Act ("ERISA") requirements based upon rulings received from the Internal Revenue Service.

Self-Insurance — The Medical Center is self-insured for various risks of loss, including professional and general liability losses, workers' compensation claims and employees' health claims. Estimated liabilities include a reserve for known claims and for claims that have been incurred but not reported. The noncurrent portion of estimated professional and general liability losses and workers' compensation claims have been discounted using a 4.0% interest rate for 2009. Estimated losses for employees' health claims are not discounted as all amounts are considered current liabilities.

Income Taxes — Halifax Health is tax exempt under Section 115 of the Internal Revenue Code ("IRC"). Except for VHN, all of the component units are not-for-profit corporations described in Section 501(c)(3) of the IRC and are exempt from federal and state income taxes on related income pursuant to Section 501(a) of the IRC and Chapter 220.13 of the Florida Statutes, respectively. VHN is a taxable Florida not-for-profit corporation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets — Halifax Health reports net assets in accordance with GASB Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*. As such, net assets are reported in three components: invested in capital assets, net of related debt, restricted and unrestricted. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any debt issued that is attributable to the acquisition, construction, or improvement of those capital assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt.

Restricted net assets are net assets that have constraints placed on them externally by creditors, grantors, contributors or laws or regulations of other governments, or laws through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

Use of Estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue and Expenses — For purposes of presentation, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenue and expenses. Peripheral or incidental transactions, such as gains and losses, donations, and investment income are reported as nonoperating revenues, expenses, and gains and losses.

Halifax Health's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Ad valorem taxes levied and received by the Medical Center are designated by law to fund the Medical Center's operating expenses, including maintenance, construction, improvements, and repairs to the Medical Center or fund other expenses in carrying out the business of the Medical Center. The Medical Center considers ad valorem tax receipts to be ongoing and central to the provision of health care services and, accordingly, classifies these funds as other operating revenue.

Substantially all expenses, including financing costs and those expenses directly attributable to the Medical Center's status as a taxing authority, are considered by management to be ongoing and central to the provision of health care services and, therefore, are reported as operating expenses. The excess of revenue over expenses is reported as income from operations in the accompanying statement of revenues, expenses, and changes in net assets and excludes investment income, nonoperating gains, distributions to or from affiliates, changes in fair value of swap liability, and donation revenue.

Ad valorem taxes received by the Medical Center are based on the assessed valuation of certain taxable real and personal property at the Board-approved millage rate for the year. Gross receipts of approximately $41.6 million are included in other revenue in the Medical Center's accompanying statement of revenues, expenses, and changes in net assets. Certain expenses directly attributable to the Medical Center's status as a taxing authority are classified as ad valorem tax-related expenses. These expenses, when added to the charity care and other uncompensated care provided to qualifying patients, exceed ad valorem taxes received and are considered by the Board when determining tax assessments.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Patient Service Revenue — Halifax Health serves certain patients whose medical costs are not paid at established rates. These include patients sponsored under government programs, such as Medicare and Medicaid, patients sponsored under private contractual agreements, and uninsured patients who have limited ability to pay.

Net patient service revenue is reported at estimated net realizable amounts due from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Approximately $5.7 million in amounts due to Medicare and Medicaid relating to estimated future retroactive adjustments is recorded in accounts payable and accrued liabilities.

Revenue from the Medicare and Medicaid programs accounted for approximately 47% of Halifax's net patient service revenue for the year ended September 30, 2009. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Adjustments to revenue are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as changes in estimated provisions and final settlements are determined. Adjustments to revenue related to prior periods decreased net patient service revenue by approximately $970,000 for the year ended September 30, 2009.

The Medical Center and Hospice classify a patient as charity based on established policies. These policies define charity services as those services for which no payment is anticipated. When assessing a patient's ability to pay, the Medical Center utilizes percentages of the federal poverty income levels, as well as the relationship between charges and the patient's income. Hospice classifies charity patients as those whose income is at or below the federal poverty guidelines. Core services may be covered in full, or discounted based on income and a sliding scale.

Net patient service revenue is reported net of charity adjustments, contractual adjustments, and provision for bad debts for the year ended September 30, 2009, as follows *(in thousands)*:

	Medical Center	Discrete Component Units	Total (Memorandum Only)
Gross patient charges	$ 1,178,894	$ 47,832	$ 1,226,726
Charity adjustments	(21,567)	(843)	(22,410)
Contractual adjustments	(694,614)	(240)	(694,854)
Net patient service revenue before provision for bad debts	462,713	46,749	509,462
Provision for bad debts	(88,637)	(198)	(88,835)
Net patient service revenue	$ 374,076	$ 46,551	$ 420,627

Operating Revenues and Expenses from Discontinued Operations — On December 31, 2008, the Medical Center sold FHCP (see Note 16). Operating revenues and expenses prior to the sale for the period October 1, 2008 through December 31, 2008, for FHCP are reported in operating revenues and operating expenses from discontinued operations. The revenues consist of commercial membership contracts written on an annual contract year basis and subject to cancellation following guidelines as

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

reflected in the employer groups' contracts; Medicare membership contracts subject to cancellation by individual Medicare beneficiaries effective the last day of the month in which notifications are received by FHCP or by FHCP within prescribed Medicare program guidelines. The expenses consist mainly of salaries paid to employees and payments made to health care providers for treatment of members.

New Accounting Pronouncements

In June 2008, the GASB issued GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. GASB Statement No. 53 is effective for periods beginning after June 15, 2009. Halifax Health will adopt GASB Statement No. 53 during the year ending September 30, 2010 and is currently evaluating the impact that GASB Statement No. 53 will have on its financial statements upon adoption. The Medical Center's interest rate swap derivative is described in Note 8.

In March 2009, the GASB issued GASB Statement No. 55, *The Hierarch of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 55 incorporates the hierarchy of the GAAP for state and local governments in the GASB's authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. GASB Statement No. 55 was effective upon issuance and was adopted by Halifax Health during the year ended September 30, 2009, with no material impact to Halifax Health's financial statements.

In March 2009, the GASB issued GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. GASB Statement No. 56 incorporates authoritative literature related to certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. GASB Statement No. 56 addresses three issues not included in the authoritative literature that establishes accounting principles; related-party transactions, going-concern considerations, and subsequent events. GASB Statement No. 56 was effective upon issuance and was adopted by Halifax Health during the year-ended September 30, 2009, with no material impact to Halifax Health's financial statements.

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2. ASSETS WHOSE USE IS LIMITED, RESTRICTED ASSETS AND INVESTMENTS

Assets Whose Use Is Limited and Restricted Assets — Assets whose use is limited that are available for obligations classified as current liabilities are reported in current assets. The composition of assets whose use is limited and restricted assets at September 30, 2009, is set forth below *(in thousands)*:

	Trustee-Held Funds Under Indenture Agreements for Debt Service	Trustee-Held Funds for Capital Projects	Trustee-Held Self Insurance Funds	Board Designated Funded Depreciation	Endowment Funds	Board Designated Other	Total
Medical Center							
Short-term investments	$ 132	$ 23,947	$ 63	$ 58,965	$ -	$ -	$ 83,107
U.S. Treasury and agency obligations	20,003	-	-	42,312	-	-	62,315
Accrued interest receivable	-	-	15	190	-	-	205
Fixed income securities	-	-	1,746	1,868	-	-	3,614
	$ 20,135	$ 23,947	$ 1,824	$ 103,335	$ -	$ -	$ 149,241
Discrete Component Units							
Short-term investments	$ 2,653	$ -	$ -	$ -	$ 720	$ -	$ 3,373
Fixed income securities	-	-	-	-	-	878	878
Equity securities	-	-	-	-	-	1,685	1,685
	$ 2,653	$ -	$ -	$ -	$ 720	$ 2,563	$ 5,936

Investments — Investments for Halifax Health consist of the following at September 30, 2009 *(in thousands)*:

	Medical Center	Discrete Component Units
Marketable debt and equity securities	$ 2,574	$ 21,220
Fixed income securities	1,048	12,116
	$ 3,622	$ 33,336

Investment income on assets whose use is limited, restricted assets, and investments for the year ended September 30, 2009, was approximately $3.7 million for the Medical Center. Investment income for the Discrete Component Units was approximately $1.5 million. Investment income includes unrealized gains of approximately $569,000 for the Medical Center and $6.4 million for the Discrete Component Units.

3. DEPOSITS AND INVESTMENT RISK

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires disclosures related to investment and deposit risks, including risks related to credit risk, consisting of custodial credit risk and concentrations of credit risk, interest rate risk, and foreign currency risk.

Bank Deposits — The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, Halifax Health will not be able to recover its deposits. Halifax Health's deposits are covered by federal depository insurance, collateralized with U.S. Treasury Securities and Federal Agency Securities, or guaranteed 100% by the State of Florida and collateralized through the State of Florida Bureau of Collateralization. Halifax Health's policy is to control and diversify investment risk by limiting specific security types and/or concentration with individual financial institutions. Specific investment strategies are influenced by relative market yields and the cash needs of Halifax Health. Excess funds of Halifax Health's Component Units may be invested in accordance with the respective Component Unit's investment policy. Excess funds of the Medical Center may be invested in, but not limited to:

- Local government investment pool;
- U.S. Government securities and repurchase agreements;
- U.S. Government agency obligations;
- Domestic Bank Certificates of Deposit provided that any such investments are in Federal Deposit Insurance Corporation guaranteed accounts or deposits collateralized by U.S. government securities or obligations; and
- Repurchase agreements with reputable financial institutions, which are fully secured by U.S. government obligations.

At September 30, 2009, Halifax Health's investments were not exposed to custodial credit risk.

Investment Risk — Halifax Health's investment policy provides guidelines for investments acquisition in order to provide maximum diversity and reduce risk. Specific investment types are limited to a percentage of the total investment portfolio. All investments are made based on reasonable research as to credit quality, liquidity, and counterparty risk prior to the investment. An independent investment management firm is required to manage the investment of all funds and performance of the portfolio is reported to Halifax Health's management quarterly.

Credit Risk — GASB 40 requires the disclosure of the credit quality of investments in debt securities, except for obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government. Halifax Health's investment policy provides guidelines to investment managers that restrict investments in debt securities to those with an A-rating or better.

Halifax Health's investment policies have established asset allocation limits to reduce the concentration of credit risk. Guidelines are provided to investment managers and monitored by management for compliance. As of September 30, 2009, Halifax Health does not have investments with a single issuer that represent 5% or more of total investments.

3. DEPOSITS AND INVESTMENT RISK (CONTINUED)

Interest Rate Risk — Changes in interest rates can adversely affect the fair value of an investment. Halifax Health manages its exposure to interest rate risk by limiting investment maturities and diversifying its investment portfolios. At September 30, 2009, all investments have maturities between October 2009 and November 2018.

As of September 30, 2009, Halifax Health had cash, investments, and assets whose use is limited maturing as follows *(in thousands)*:

	Market Value	Less than 1 Year	1–5 Years	6–10 Years
Medical Center				
U.S. Government securities	$ 574	$ -	$ 319	$ 255
U.S. Government agency securities	45,404	38,340	4,212	2,852
Corporate bonds	24,917	4,915	-	20,002
Other, including bank deposits	258,466	258,466	-	-
Total	$ 329,361	$ 301,721	$ 4,531	$ 23,109

	Market Value	Less than 1 Year	1–5 Years	6–10 Years
Discrete Component Units				
U.S. Government securities	$ 306	$ 51	$ 209	$ 46
U.S. Government agency securities	1,394	557	731	106
Corporate bonds	10,714	10,714	-	-
Other, including bank deposits	36,684	36,684	-	-
Total	$ 49,098	$ 48,006	$ 940	$ 152

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of financial instruments as reported in the accompanying statement of net assets:

- Marketable debt and equity securities and U.S. Government securities are based on quoted market prices at September 30, 2009.
- Fixed income securities and mutual funds are based on market value at September 30, 2009.
- Bonds payable, long-term notes and other indebtedness are based on the quoted market prices for the outstanding issues at September 30, 2009.
    - Long-term debt related to bonds payable is reported at historical value. The carrying value at September 30, 2009, is $364.1 million and the fair value at September 30, 2009, is approximately $368.5 million.
- The fair value of the swap liability was approximately $16.7 million at September 30, 2009, as determined by an independent third party.

5. CAPITAL ASSETS

Capital assets are recorded at cost. A summary of the activities for the year ended September 30, 2009, consists of the following *(in thousands)*:

	Balance at October 1, 2008	Additions	Reductions	Balance at September 30, 2009
Medical Center				
Land	$ 41,649	$ 3,541	$ -	$ 45,190
Land improvements	5,385	1,935	-	7,320
Buildings	150,161	145,909	74	295,996
Fixed equipment	20,129	93	34	20,188
Major moveable equipment	73,785	18,346	5,303	86,828
Construction in progress	138,811	91,433	173,095	57,149
Total capital assets	429,920	261,257	178,506	512,671
Less accumulated depreciation	(139,878)	(19,052)	(5,372)	(153,558)
Capital assets — at cost — net	$ 290,042	$ 242,205	$ 173,134	$ 359,113

	Balance at October 1, 2008	Additions	Reductions	Balance at September 30, 2009
Discrete Component Units				
Land	$ 9,832	$ -	$ 7,878	$ 1,954
Land improvements	27	-	-	27
Buildings	70,253	4,630	26,206	48,677
Capital leases	2,536	-	2,536	-
Fixed equipment	554	-	424	130
Major moveable equipment	17,961	85	16,362	1,684
Construction in progress	3,027	2,792	5,555	264
Total capital assets	104,190	7,507	58,961	52,736
Less accumulated depreciation	(37,924)	(1,378)	(26,151)	(13,151)
Capital assets — at cost — net	$ 66,266	$ 6,129	$ 32,810	$ 39,585

Interest Capitalization — In accordance with FASB Statement No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowing and Certain Gifts*, Halifax Health capitalized the interest cost of tax-exempt borrowing, less any interest earned on the temporary investments of the proceeds of the borrowing. Interest cost is capitalized from the date of the borrowing until the qualifying assets are ready for their intended use. The Medical Center's capitalized interest cost, net of earnings on temporary investments, of approximately $7.0 million is included in capital assets.

6. SELF-INSURANCE AND INSURANCE

Self-Insurance — The Medical Center is self-insured for various risks of loss, including professional and general liability losses, workers' compensation claims, and employees' health claims. Certain other component units participate in the Medical Center's employee health and workers' compensation self-insurance programs.

The Medical Center, as a subdivision of the State of Florida, has sovereign immunity in tort actions. Therefore, in accordance with Chapter 768.28 Laws of Florida, the Medical Center and its component units are not liable to pay a claim by or judgment to any one person which exceeds the sum of $100,000 or any claim or judgment, or portions thereof, which when totaled with all other claims or judgments paid by the state or its agencies or subdivisions arising out of the same incident or occurrence exceeds the sum of $200,000. Self-insurance funds are held by a trustee bank. Chapter 768.28 also provides that judgments may be claimed or rendered in excess of these limits; however, these amounts must be reported to and approved by the Florida Legislature.

Professional and general liability losses are recorded when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Accrued self-insurance liabilities include an amount for claims that have been incurred but not reported based on actuarial determinations. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

The liabilities for employees' health insurance and workers' compensation claims are estimated based on historical data. The Medical Center has commercial insurance policies for health insurance and workers' compensation for cases that exceed certain limits. The health insurance policy includes an 80% indemnity of cases that exceed $325,000 and a $1.0 million lifetime maximum. Specific excess coverage for workers' compensation includes retention of $600,000 per accident.

Changes in the accrued self-insurance liabilities are as follows *(in thousands)*:

	Balance at October 1, 2008	Current Year Claims and Changes in Estimates	Claim Payments	Balance at September 30, 2009
Employee health claims	$ 1,849	$ 13,674	$ (10,872)	$ 4,651
Professional Liability	5,600	516	(496)	5,620
Workers' Compensation	1,617	2,289	(1,163)	2,743
Total	$ 9,066	$ 16,479	$ (12,531)	$ 13,014

Halifax Health may incur losses in excess of amounts accrued, although an estimate of such excess cannot be made. However, in management's opinion such excess should not have a material adverse effect on the results of operations or financial position of Halifax Health.

7. LONG-TERM DEBT

Long-term debt at September 30, 2009, consists of the following *(in thousands)*:

Medical Center		
Bonds payable, Series 2006 A — net of premium of $2,261 and loss on defeased bonds of $3,360	$	173,901
Bonds payable, Series 2006 B1 & B2 Fixed Rate Conversion — net of discount of $1,869 and loss on refunded bonds of $2,744		100,388
Bonds payable, Series 2008		70,000
Subtotal Medical Center		344,289
Discrete Component Units		
Bonds payable, 1998 Series A — net of discount of $76 (HMS)		18,435
Long-term notes and other indebtedness (HMS)		1,423
Subtotal Discrete Component Units		19,858
Total long-term debt		364,147
Current portion of long-term debt		1,800
Long-term debt-less current portion	$	362,347

Bonds Payable — The Medical Center previously issued $350.0 million of debt to refund prior debt and to provide funding for capital projects. The debt is organized with principal balances as follows: $175.0 million of tax-exempt, fixed-rate bonds (Series 2006 A), $105.0 million of tax-exempt, insured, fixed-rate bonds (Series 2006 B), and $70 million of tax-exempt, letter-of-credit backed, variable rate bonds (Series 2008).

The Series 2006 A bonds carry interest rates ranging from 5.00% to 5.38% and have a maximum maturity of June 1, 2046. The net proceeds of the Series 2006 A bonds were used to advance refund outstanding indebtedness, convert a line of credit to long-term indebtedness, fund a debt service reserve fund ("DSRF") and provide funds for capital projects.

The net proceeds of the Series 2006 A bonds reserved to refund the Medical Center's previously outstanding indebtedness were deposited into an irrevocable trust with an escrow agent that provides for all future debt service payments on the advance refunded bonds. As such, the advance refunded debt is considered defeased and the liability for that debt has been removed from the accompanying financial statements. The total amount of defeased in substance bonds outstanding at September 30, 2009, for the Series 1999 A bonds is $18.6 million.

The Series 2006 B bonds are fixed-rate securities insured by Financial Security Assurance Inc. ("FSA"). The Series 2006 B bonds carry interest rates ranging from 5.38% to 5.50%. The Series 2006 B bonds have maturities extending through June 1, 2038. The net proceeds of the Series 2006 B bonds were used to fund a DSRF, to provide funds for future capital projects and for reimbursement of past capital expenditures. The Series 2006 B bonds are bifurcated into Series 2006 B-1 and Series 2006 B-2 bonds.

The Series 2008 bonds are tax-exempt, variable-rate securities with a weekly interest-rate period. The Series 2008 bonds have final maturities of June 1, 2048. The net proceeds of the Series 2008 bonds were used to advance refund a portion of the Medical Center's outstanding indebtedness to provide funds for future capital projects, and for reimbursement of prior capital expenditures.

7. LONG-TERM DEBT (CONTINUED)

The Series 2008 bonds are subject to purchase from time to time at the option of the owners thereof and are required to be purchased in certain events. As such, the bonds are supported by a remarketing agreement and an irrevocable direct pay letter of credit with a bank in the aggregate amount of $70.8 million at September 30, 2009. The remarketing agreement generally provides the Medical Center the option to market the obligations at the then-prevailing short-term rate, as determined by the remarketing agent. The obligations were marketed weekly during 2009, with interest rates ranging from 0.18% to 5.75%. The term of the letter of credit expires September 18, 2011. The letter of credit is secured by an interest in any bonds purchased with draws on the letter of credit and amounts payable under the Master Trust Indenture. Pursuant to the terms of the letter of credit, the Medical Center is required to comply with certain provisions regarding additional borrowings, capital expenditures, and the maintenance of certain financial ratios. The Medical Center was in compliance with these covenants as of September 30, 2009. The Medical Center did not use the letter of credit during 2009.

The Medical Center has a $70.0 million notional amount fixed-pay percentage of LIBOR interest rate swap on the Series 2008 bonds. The variable interest paid on the Series 2008 bonds is expected to correlate very closely with the rate that is received on the related interest-rate swap (see Note 8). The effective interest rate on the swap is a synthetic fixed rate of interest of approximately 3.84%.

Pursuant to the terms of the Trust Indenture under which the bonds were issued (excluding conduit indebtedness), the Medical Center is required to comply with certain provisions regarding additional borrowings and the maintenance of certain minimum debt service coverage, liquidity, and indebtedness ratios and must maintain DSRF's. The Medical Center was in compliance with these covenants as of September 30, 2009.

The Medical Center's DSRF's are to be used to pay the principal and/or interest on the respective bond issues in the event that insufficient funding is available to satisfy current debt service requirements. The funds are held by a trustee and any amounts in excess of the requirements of the DSRF can be used to repay outstanding bonds.

The Medical Center issued conduit indebtedness in 1998 on behalf of HMS. The Series 1998A bonds are special limited obligations of the Medical Center, payable solely from and secured by a pledge of rentals to be received from a lease agreement between the Medical Center and HMS. The bonds do not constitute a debt or pledge of the faith and credit of the Medical Center.

The Medical Center also issued conduit indebtedness in 1998 on behalf of FHCP. During 2008, in connection with the sale of FHCP, the Series 1998 bonds were redeemed as part of the sale of FHCP.

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7. LONG-TERM DEBT (CONTINUED)

A summary of these bond issues follows *(in thousands)*:

Fixed-Rate Bonds

		Serial Bonds			Term Bonds		
Series	Date Issued\Converted	Amount	Interest Rate	Maturity Date	Original Issue Amount	Interest Rate	Maturity Date
Medical Center							
Series 2006 A	June 22, 2006	$ 38,150	5.00%-5.25%	June 1, 2021	$ 39,380	5.25 %	June 1, 2026
					46,600	5.00 %	June 1, 2038
					50,870	5.38 %	June 1, 2046
Series 2006 B1	September 18, 2008				70,925	5.50 %	June 1, 2038
Series 2006 B2	September 18, 2008				34,075	5.38 %	June 1, 2031
HMS							
Series 1998 A	February 26, 1998	13,685	4.40%-5.00%	April 1, 2012	13,285	5.20 %	April 1, 2018

Variable-Rate Bonds

Series	Date Issued	Original Issue Amount	Interest Rate Period	Interest Rate at September 30, 2009	Maturity Date
Medical Center					
Series 2008	September 18, 2008	$ 70,000	7 days	0.34 % *	June 1, 2048

***** This rate is the remarketed interest rate in effect as of September 30, 2009. The Medical Center also has a fixed-pay interest rate swap with a notional amount of $70 million. See note 8 for more information on the interest rate swap.

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7. LONG-TERM DEBT (CONTINUED)

Listed below are the debt service payments for the Medical Center and HMS for each of the five years ending September 30, 2010 through 2014, and in five-year increments thereafter *(in thousands)*. In accordance with GASB Statement No. 38, *Certain Financial Statement Disclosures*, the interest rate used to calculate interest on the variable rate debt was the remarketed interest rate in effect at September 30, 2009.

	2006 Series A		2006 Series B Fixed-rate Conversion		2008 VRDO Series		HMS 1998 Series A (Conduit Indebtedness)		HMS Other	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	$ -	$ 9,121	$ -	$ 5,732	$ -	$ 238	$ 1,675	$ 949	$ 125	$ 83
2011	-	9,121	-	5,732	-	238	1,755	868	132	76
2012	1,715	9,121	-	5,732	-	238	1,845	780	140	68
2013	1,830	9,035	-	5,732	-	238	1,935	688	148	60
2014	1,855	8,944	-	5,732	-	238	2,035	588	157	51
2015-2019	19,615	42,528	-	28,662	-	1,190	9,265	1,235	721	109
2020-2024	35,550	35,565	-	28,662	-	1,190	-	-	-	-
2025-2029	26,205	26,222	20,340	27,607	-	1,190	-	-	-	-
2030-2034	18,705	21,231	41,980	18,882	-	1,190	-	-	-	-
2035-2039	23,915	16,060	42,680	6,025	4,435	1,175	-	-	-	-
2040-2044	30,825	9,119	-	-	25,185	864	-	-	-	-
2045-2049	14,785	1,203	-	-	40,380	282	-	-	-	-
	$ 175,000	$ 197,270	$ 105,000	$ 138,498	$ 70,000	$ 8,271	$ 18,510	$ 5,108	$1,423	$447

7. LONG-TERM DEBT (CONTINUED)

Long-Term Notes Payable and Other Indebtedness — Concurrent with the issuance of the Series 1998A HMS Bonds, HMS delivered a promissory note payable in the amount of $2.3 million to the Medical Center. The note payable amortizes on a level debt service basis over the term of the Series 1998A bonds at an interest rate of 5.85%. The outstanding principal at September 30, 2009, was $1.4 million.

Long-term debt activity for the year ended September 30, 2009, consisted of the following *(in thousands)*:

	Balance at September 30, 2008	Reductions, Net of Original Issue Discounts, Premium and Loss on refunding	Balance at September 30, 2009
Medical Center			
Series 2006 A Bonds (Medical Center)	$ 173,770	$ 131	$ 173,901
Series 2006 B Fixed Rate Conversion (Medical Center)	100,271	117	100,388
Series 2008 (Medical Center)	70,000		70,000
Total for Medical Center	344,041	248	344,289
FHCP			
Series 1988	6,700	(6,700)	-
Capital Lease Obligations	1,772	(1,772)	-
Total for FHCP	8,472	(8,472)	-
HMS			
Series 1998 A	20,017	(1,582)	18,435
Other	1,541	(118)	1,423
Total for HMS	21,558	(1,700)	19,858
Total for Halifax Health	$ 374,071	$ (9,924)	$ 364,147

8. INTEREST RATE SWAP

In September of 2008, the Medical Center amended its fixed-pay interest rate swap agreement in the notional of $70.0 million that effectively converts the variable rate bonds to a fixed rate. The Medical Center amended this swap in conjunction with the issuance of the Series 2008 Bonds. Under the terms of the swap, the Medical Center pays to the counterparty a fixed rate of interest equal to 3.84% of the remaining notional amount. In turn, the Medical Center receives a variable payment of interest equal to 67.0% of LIBOR. The termination date of this swap agreement is June 1, 2048. Payments under the swap agreement are insured by FSA.

For the year ended September 30, 2009, the Medical Center made approximately $2.7 million in payments under the swap agreement to the counterparty and received approximately $0.5 million in payments under the swap agreement from the counterparty. As of September 30, 2009, the fair value of the swap liability of approximately $16.7 million was included in other long-term liabilities, with the change in value recorded as a nonoperating loss.

9. SHORT-TERM DEBT

The Medical Center has a $15.0 million revolving line of credit ("Line") agreement with Wachovia Bank, N.A. to fund short-term working capital needs. Interest is payable monthly at LIBOR, plus 1.25%. As of September 30, 2009, the Medical Center did not have an outstanding balance on the Line, which expires on September 9, 2010.

9. SHORT-TERM DEBT (CONTINUED)

Hospice has a $5.0 million revolving line of credit agreement with Wachovia Bank, N.A. to fund short-term working capital needs. Interest is payable monthly at LIBOR, plus 1.25%. As of September 30, 2009, Hospice had an outstanding balance of approximately $2.0 million on the line of credit, which expires on September 9, 2010, and is recorded in Notes Payable.

10. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS

Defined Benefit Pension Plan — Certain Halifax Health employees participate in a cost-sharing, multiple-employer, noncontributory defined benefit pension plan (the "Plan") with two participating employers. The Plan is treated as a single plan for the purpose of making contributions and paying pension benefits, determining whether there has been any termination of service, and applying the maximum benefit limitation. The Plan covers all eligible employees who have attained the age of 21 and have more than one year of service. Membership in the Plan was closed to all employees whose initial hire date or rehire date was on or after October 1, 2000. Halifax Health assumed the unfunded portion of the past service liability for Halifax Health's employees who participated and were not vested in the prior pension benefit programs. Pension plan benefits are based on the number of years of service and the employee's highest three-year average annual compensation. Halifax Health's policy is to fund the Plan in accordance with accepted actuarial practices. Plan assets consist of common stock, equity funds, fixed income funds, and money market accounts.

The Plan issues stand-alone financial statements which can be obtained by contacting the Plan's sponsor, Staffing. The Plan's financial statements are prepared using the accrual basis of accounting. The contribution rate is determined on an actuarial basis. Contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefit payments are recognized when due to the Plan participants.

The contribution requirements for Halifax's fiscal year are as follows *(in thousands)*:

Fiscal Year Ended September 30,	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2001	$ 9,047	86.3%
2002	10,416	87.6
2003	11,588	89.7
2004	11,595	88.1
2005	11,855	91.2
2006	12,050	96.2
2007	12,848	96.5
2008	12,769	96.0
2009	15,078	96.8

Source: Consulting Actuaries International, Inc.

10. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The information presented below is the required supplementary information and was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	October 1, 2008
Actuarial cost method	Projected unit credit
Amortization method	Closed amortization periods
Remaining amortization period	Weighted-average of 13.74 years
Asset valuation method — prior to October 1, 2001	Market value
Asset valuation method — as of October 1, 2001	Five-year average value
Actuarial assumptions:	
Investment rate of return	8.25%
Projected salary increases	4.00%
Cost-of-living adjustments	3.00%

These actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated Plan benefits. Also, changes in actuarial assumptions and methods may affect the amounts reported and information presented in the required supplementary schedule of Funding Progress on page 48.

The fair value of individual investments, based on quoted market prices, representing 5.0% or more of the Plan's net assets at September 30, 2009, are *(in thousands)*:

Sanford Bernstein Inter-Duration Portfolio	$ 55,323
Sanford Bernstein International Value Portfolio	19,115

The Plan's investment policy provides guidelines for its investment managers which restricts investments to debt securities with an A-rating or better. At September 30, 2009, the Plan's bond mutual fund is rated AA+ by Barclays Capital US Aggregate Index and the average of the underlying bonds is A+ as rated by independent agencies (Moody's, S & P, and Fitch).

Defined Contribution Pension Plan — Halifax Health offers a 403(b) defined contribution pension plan (the "Contribution Plan") to employees hired on or after October 1, 2000. The Contribution Plan covers all eligible employees who have attained the age of 18 and have completed 30 days of employment. Halifax Health matches employee contributions dollar-for-dollar up to 3% of the employee's annual salary. Employees vest 20% per year for employer matched funds during each year of employment.

Total cost of the Contribution Plan for the year ended September 30, 2009, was approximately $2.1 million and is included in salaries and benefits in the accompanying statement of revenues, expenses, and changes in net assets. Participants contributed approximately $4.3 million to the Contribution Plan for the year ended September 30, 2009.

10. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Other Postemployment Benefits ("OPEB") — Halifax Health provides certain postretirement benefits other than pension benefits to qualified employees. All employees with 10 years of benefited service as a participant in the Halifax Pension Plan or the Florida Retirement System are eligible to receive a subsidy for health insurance premiums ("Insurance Subsidy OPEB"). The participant must present, at the time of retirement, evidence of health insurance coverage, either through an insurance company or Medicare. The Insurance Subsidy OPEB is calculated based on the number of years of service and is limited to a maximum annual benefit of $1,800 per participant. The Insurance Subsidy OPEB does not issue stand-alone financial statements. It is included in the financial statements and required supplementary information of Halifax Health. The following table shows the components of the annual OPEB cost for the year *(in thousands)*.

ARC and Annual OPEB Cost		
ARC	$	1,235
Plus: Interest on net OPEB obligation		39
Less: Adjustment to annual required contribution		(57)
Annual OPEB cost		1,217
Contributions made		-
Increase in net OPEB obligation		1,217
Net OPEB obligation, beginning of year		1,204
Net OPEB obligation, end of year	$	2,421

Benefits for covered beneficiaries are self-funded from contributions made by Halifax Health. The annual Insurance Subsidy OPEB cost for fiscal year 2009 is approximately $1.2 million. Fiscal year 2008, was the transition year for this accounting treatment in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* and as such the net OPEB obligation was set to zero as of September 30, 2007. The annual OPEB obligation was $2.4 million as of September 30, 2009, and is included in the accrued payroll liability on the Medical Center's balance sheet.

The annual OPEB cost history is as follows *(in thousands)*:

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Contributed	Net OPEB Obligation
9/30/2008	$ 1,204	0%	$ 1,204
9/30/2009	1,217	0%	2,421

10. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Additional information as of the latest actuarial valuation follows.

Valuation date	October 1, 2008
Actuarial cost method	Projected Unit Credit
Amortization method	Level dollar amounts
Remaining amortization period	30 years
Actuarial assumptions:	
Investment rate of return	4.00%

These actuarial assumptions are based on the presumption that the Insurance Subsidy OPEB will continue. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The supplemental schedule of Funding Progress for the Insurance Subsidy OPEB on page 49 presents information about whether the value of plan assets is increasing or decreasing over time relative to the Actuarial Accrued Liability for benefits.

Calculations are based on the benefits provided under the terms of the substantive plan as of the valuation data and on the sharing of costs between the employer and plan members as of that date. In addition, assumptions on employee withdrawal and retirement rates were used. Mortality is assumed to follow the 1994 Group Annuity Mortality Table (sex-distinct), with projection to 2000.

A schedule of funding progress for the previous two plan years is as follows *(in thousands)*:

Actuarial valuation date	Actuarial value of plan assets	Actuarial accrued liability	Unfunded actuarial accrued liability (UAAL)	Funded ratio	Covered Payroll	UAAL as a % of covered payroll
10/1/2007	-	$ 12,891	$ 12,891	0%	$ 69,740	18.5%
10/1/2008	-	14,714	14,714	0%	58,278	25.2%

In addition, Halifax Health offers health insurance to retirees at the same cost as active employees. The name of the plan is Halifax Health Plan. It is a single employer defined benefit OPEB plan. It provides medical care and prescription drug coverage to full time employees and specified part-time employees of Halifax Health. The OPEB Plan ("Implicit Rate Subsidy OPEB") does not issue stand-alone financial statements. It is included in the financial statements and required supplementary information of Halifax Health.

Benefits for participants are self-funded from contributions made by Halifax Health and plan members. The cost of the plan is a blended rate of active employees and retirees. Retired employees contribute both the employee and employer rates. Retirees do not pay a separate rate based solely on retiree costs to the plan. Therefore, this OPEB provides an implicit rate subsidy to retirees in the plan.

10. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The annual Implicit Rate Subsidy OPEB cost for fiscal year 2009 is approximately $951,000. Fiscal year 2007 was the transition year for this accounting treatment in accordance with GASB Statement No. 45 and as such the net OPEB obligation was set to zero as of September 30, 2007. The annual Implicit Rate Subsidy OPEB obligation was $1,627,000 as of September 30, 2009, and is included in the accrued payroll liability on the Medical Center's balance sheet.

The following table shows the components of the annual OPEB cost for the year *(in thousands)*.

ARC and Annual OPEB Cost	
ARC	$ 957
Plus: Interest on net OPEB obligation	16
Less: Adjustment to annual required contribution	(22)
Annual OPEB cost	951
Contributions made	-
Increase in net OPEB obligation	951
Net OPEB obligation, beginning of year	676
Net OPEB obligation, end of year	$ 1,627

The annual OPEB cost history is as follows *(in thousands)*:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB contributed	Net OPEB Obligation
9/30/2008	$ 676	0%	$ 676
9/30/2009	951	0%	1,627

Additional information as of the latest actuarial valuation follows.

Valuation date	October 1, 2008
Actuarial cost method	Projected Unit Credit
Amortization method	Level dollar amounts
Remaining amortization period	30 years
Actuarial assumptions:	
Investment rate of return	4.00%
Health Care Trend Rate - First year	9.00%
Health Care Trend Rate - Following 10 years	5.00%

These actuarial assumptions are based on the presumption that the Implicit Rate Subsidy OPEB will continue. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future.

10. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Calculations are based on the benefits provided under the terms of the substantive plan as of the valuation data and on the sharing of costs between the employer and plan members as of that date. In addition, assumptions on employee withdrawal and retirement rates were used. Mortality is assumed to follow the RP-2000 Mortality Table for active and retired males and females with mortality projection scale AA to the year of valuation.

Schedules of funding progress regarding both of these OPEB plans are included in the required supplementary information sections of these financial statements and presents information about whether the value of plan assets is increasing or decreasing over time relative to the Actuarial Accrued Liability for benefits.

A schedule of funding progress for the previous two plan years is as follows *(in thousands)*:

Actuarial valuation date	Actuarial value of plan assets	Actuarial accrued liability	Unfunded actuarial accrued liability (UAAL)	Funded ratio	Covered Payroll	UAAL as a % of covered payroll
10/1/2007	-	$ 5,844	$ 5,844	0%	$ 69,740	8.4%
10/1/2008	-	8,794	8,794	0%	58,278	15.1%

11. DEFERRED GIFT ANNUITY PLAN

As part of the Foundation's Planned Giving Program, the Foundation has established a Deferred Gift Annuity Plan (the "Annuity Plan"). Annuity Plan participants make monthly contributions to the Annuity Plan for a specified time period. Contributions are used to purchase commercial annuity contracts and life insurance policies owned by the Foundation. An asset is recorded as of September 30, 2009, in the amount of approximately $1.2 million that represents the cash surrender value of the life insurance policies and annuity contracts purchased. In addition, a liability is recorded as of September 30, 2009, for approximately $1.8 million which represents the present value of the annuity payments promised to the participants in the Annuity Plan by the Foundation. At September 30, 2009, the Annuity Plan had 21 participants.

The Foundation had deferred benefits totaling approximately $7.8 million. This represents life insurance death benefits purchased on the lives of the participants and is contingent upon the consistent payment of premiums under the contracts.

12. CHARITABLE GIFT ANNUITIES

The Foundation has received contributions from various donors in the form of charitable gift annuities, which total approximately $995,000. In consideration of the charitable gift, the Foundation agrees to make annuity payments to the donor for the remainder of the donor's life, and a liability equal to the estimated present value of these annuity payments is recorded in other liabilities in the accompanying statement of net assets. The Foundation calculates the present value using the donors' expected life and a discount rate of 5.0%. The Foundation has also purchased annuities through various insurance companies with an approximate cost of $720,000, which provide annuity payments to the Foundation for the remainder of the donors' lives in amounts equal to those required under the charitable gift annuity agreements. A receivable equal to the estimated present value of these annuity payments is recorded in other assets in the accompanying statement of net assets. The difference between the charitable gift annuities received from each donor and the purchase of annuities with the insurance companies is included as donation revenue, at the time of the gift, in the accompanying statement of revenues, expenses, and changes in net assets.

13. COMMITMENTS AND CONTINGENCIES

Leases — Halifax Health is committed under various noncancelable operating leases. These expire in various years through 2024. Future minimum operating lease payments are as follows *(in thousands)*:

	Medical Center
Year Ending September 30,	
2010	$ 11,412
2011	7,704
2012	5,675
2013	4,623
2014	4,474
2015–2019	12,807
2020–2024	458
Total minimum lease payments required	$ 47,153

14. CONCENTRATIONS OF CREDIT RISK

Halifax Health grants credit without collateral to its patients, most of who are local residents that are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors at September 30, 2009, was as follows:

	Medical Center	Discrete Component Units
Medicare	16 %	65 %
Medicaid	17	24
Other third-party payors	63	6
Self-pay patients	4	5
Total	100 %	100 %

15. RELATED-PARTY TRANSACTIONS

The Medical Center provides various supplies and services to VHN and Hospice, including accounting, purchasing, and payroll processing services. These services are reimbursed at the Medical Center's cost.

Substantially all of the expenses of the Foundation are paid by the Medical Center and are not reimbursed by the Foundation. These expenses totaled approximately $278,000 for the year ended September 30, 2009. In addition, the Medical Center provides certain administrative services and office space to the Foundation at no charge.

In 1998, the Medical Center entered into a 20-year master lease for office space from HMS. Total rent paid to HMS was approximately $2.6 million for the year ended September 30, 2009.

Transactions between the discrete component units and the primary government are not eliminated.

16. SALE OF FHCP

FHCP was organized in 1994 as a not-for-profit corporation under Florida law and was a qualified health maintenance organization ("HMO") under title XIII of the Public Health Service Act. On October 1, 2008, Diversified Health Services, Inc. ("DHS"), a wholly owned subsidiary of Blue Cross and Blue Shield of Florida, Inc. ("BCBSFL"), entered into an agreement (the "Agreement") with FHCP and the Medical Center to acquire certain assets and assume certain liabilities of FHCP (the "Sale"). The Sale was accomplished through the transfer of these certain assets and liabilities from FHCP to NAC Health Plan, Inc. ("NAC"), simultaneous with the acquisition of 100% of the NAC common stock by DHS, effective December 31, 2008. Also, effective December 31, 2008, FHCP changed its name to Holdings. NAC filed an amendment to its Articles of Incorporation with the state of Florida to change its name to Florida Health Care Plan, Inc. ("New FHCP") effective January 1, 2009, and is a wholly owned subsidiary of DHS. FHCP subsequently relinquished its license to operate as a Florida HMO effective December 31, 2008, and New FHCP began operations on January 1, 2009, as a for-profit stock corporation and a staff model HMO.

As stated in the Agreement, the purchase price of the NAC common stock was $85 million, of which $80.0 million was payable at closing and the remaining $5.0 million, noncontingent payment is due on December 31, 2010 (the "Purchase Price").

The sale proceeds and retained net assets are reported in Holdings.

The gain on sale of discontinued operations is included in the statement of revenues, expenses, and changes in net assets and is comprised of the following (*in thousands*):

Purchase price	$ 85,000
Less — Equity in NAC at December 31, 2008	(26,769)
Less — unamortized goodwill	(10,747)
Less — Costs to sell	(4,920)
Gain on sale of discontinued operations	$ 42,564

16. SALE OF FHCP (CONTINUED)

At December 31, 2008, the net assets of NAC were comprised of the following (which includes the initial capital contribution of $1.5 million) (*in thousands*):

Assets:	
Cash and cash equivalents	$ 50,422
Accounts receivable — net	1,447
Inventories	3,048
Prepaids and other current assets	1,496
Property and equipment — net	15,831
Other long term assets	723
Total assets	72,967
Liabilities:	
Accounts payable	18,754
Medical expense payable	24,082
Accrued expenses	1,042
Unearned premium	688
Obligations under capital leases	1,632
Total liabilities	46,198
Net assets	$ 26,769

The Purchase Price is subject to adjustment for actual medical expenses incurred, actual reinsurance recoveries, and actual membership enrollment, as defined in the Agreement. The enrollment adjustment was to occur concurrently with or prior to the delivery of the closing date balance sheet by New FHCP to Holdings, whereby New FHCP delivered to Holdings on June 10, 2009 the total number of individuals enrolled in plans that were used in connection with the audit of the closing date balance sheet. The actual medical claims incurred adjustment will occur within 90 calendar days after the one-year anniversary of the closing date. New FHCP shall prepare and deliver to Holdings a statement of claims paid on and after the closing date for covered services provided prior to the closing date. The adjustment for actual reinsurance recoveries will occur within 90 calendar days of the three-year anniversary of the closing date and will be calculated from the statement of reinsurance recoveries prepared by New FHCP and delivered to Holdings, which will include actual recoveries received on or after the closing date for covered services provided prior to the closing date, net of offsets, recaptures, rescission, returns, and other amounts reclaimed. As of December 31, 2008, the amount due to Holdings for the minimum cash settlement, as defined in the Agreement, is equal to $1.3 million and the enrollment adjustment agreed to on June 10, 2009, resulted in an amount of $1.0 million due to New FHCP. The net result of the two calculations will be adjusted by the actual medical claims incurred adjustment scheduled to occur within 90 days of the one-year anniversary of the closing date. No other amounts have been recorded in the accompanying financial statements since management was not able to estimate such amounts.

17. SUBSEQUENT EVENT

Regulatory Review – The Medical Center maintains various licenses and accreditations issued by regulatory and other bodies for set periods of time to operate as a tax-exempt provider of health care services. The licensure and regulatory agencies make periodic reviews of the Medical Center's compliance with the respective agencies' policies and procedures. Such reviews are ongoing and currently include an investigation by the Office of the Inspector General of the Department of Health and Human Services ("OIG") as described below. Periodically, the agencies have reported their findings and recommendations to the Medical Center's management, and these findings and recommendations

are being reviewed and implemented by the Medical Center's management and legal counsel in the ordinary course of business. When possible, a provision for these reviews has been recorded by the Medical Center's management to estimate the ultimate liability to various third-party payor programs in the accompanying consolidated financial statements.

In December 2009, the OIG informed the Medical Center that it is conducting an investigation of the Medical Center concerning the propriety of certain claims that were submitted to Medicare, and requested certain information concerning that investigation. The Medical Center, with the assistance of its legal counsel and consulting support, is compiling the requested information. As of January 13, 2010, the ultimate outcome and potential liability of the OIG's pending investigation cannot be determined.

Sale of Land – On October 13, 2009, the Medical Center entered into an agreement to sell certain land in Daytona, Florida to Indigo Development LLC for a selling price of approximately $7.6 million over a four phase closing date schedule, over four years, and beginning in December 2009. The land was originally purchased from Indigo Development LLC during fiscal year 2004 and the selling price approximates the original purchase price. The sale proceeds received upon the respective closing dates are anticipated to be used to pay off outstanding long-term debt or to reinvest in other capital projects.

REQUIRED SUPPLEMENTARY INFORMATION

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH
Halifax Pension Plan (administered by Halifax Staffing, Inc., a component unit of Halifax Hospital Medical Center)

UNAUDITED SCHEDULE OF FUNDING PROGRESS
YEAR ENDED SEPTEMBER 30, 2009
(In thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) — Entry Age Interest (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
October 1, 1999	$ 44,145	$ 81,015	$ 36,870	54.5 %	$ 78,518	47.0 %
October 1, 2000	49,921	89,402	39,481	55.8	73,095	54.0
October 1, 2001	62,116	106,548	44,432	58.3	76,434	58.1
October 1, 2002	71,001	121,486	50,485	58.4	76,318	66.2
October 1, 2003	83,363	134,186	50,823	62.1	74,513	68.2
October 1, 2004	97,567	149,244	51,678	65.4	71,977	71.8
October 1, 2005	114,755	167,740	52,985	68.4	70,399	75.3
October 1, 2006	133,915	192,393	58,478	69.6	70,384	83.1
October 1, 2007	158,485	215,465	56,980	73.6	69,740	81.7
October 1, 2008	160,727	237,791	77,064	67.6	58,278	132.2

Source: Consulting Actuaries International, Inc.

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH
Halifax Insurance Subsidy OPEB

UNAUDITED SCHEDULE OF FUNDING PROGRESS
YEAR ENDED SEPTEMBER 30, 2009
(In thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) — Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
October 1, 2007	$ -	$ 12,891	$ 12,891	0%	$ 69,740	18.5%
October 1, 2008	-	14,714	14,714	0%	58,278	25.2%

Source: Consulting Actuaries International, Inc.

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH
Halifax Implicit Rate Subsidy OPEB

UNAUDITED SCHEDULE OF FUNDING PROGRESS
YEAR ENDED SEPTEMBER 30, 2009
(In thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) — Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
October 1, 2007	$ -	$ 5,844	$ 5,844	0%	$ 69,740	8.4%
October 1, 2008	-	8,794	8,794	0%	58,278	15.1%

Source: Consulting Actuaries International, Inc.

ADDITIONAL INFORMATION

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

COMBINING STATEMENT OF NET ASSETS — DISCRETE COMPONENT UNITS
SEPTEMBER 30, 2009
(In thousands)

	Halifax Hospice, Inc. d/b/a Hospice of Volusia/Flagler	Volusia Health Ventures, Inc. d/b/a Volusia	Halifax Medical Center Foundation, Inc.	Halifax Management System, Inc.	Total
Assets					
Current assets:					
Cash and cash equivalents	$ 8,958	$ -	$ 867	$ -	$ 9,825
Investments	23,183	-	10,153	-	33,336
Accounts receivable — patients — net of estimated uncollectibles	3,598	22	-	-	3,620
Inventories	78	-	-	-	78
Other current assets	65	30	-	-	95
Total current assets	35,882	52	11,020		46,954
Restricted funds under indenture agreements debt service	-	-	-	2,653	2,653
Noncurrent assets whose use is limited:					
Endowment funds	-	-	720	-	720
Board designated — other	2,563	-	-	-	2,563
Capital assets — at cost — net	16,849	35	-	22,701	39,585
Other assets	100	-	1,519	493	2,112
Total assets	$ 55,394	$ 87	$ 13,259	$ 25,847	$ 94,587

(Continued)

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

COMBINING STATEMENT OF NET ASSETS — DISCRETE COMPONENT UNITS (CONTINUED)
SEPTEMBER 30, 2009
(In thousands)

	Halifax Hospice, Inc. d/b/a Hospice of Volusia/Flagler	Volusia Health Ventures, Inc. d/b/a Volusia	Halifax Medical Center Foundation, Inc.	Halifax Management System, Inc.	Total
Liabilities and net assets (deficit)					
Current liabilities:					
Accounts payable and accrued liabilities	$ 1,559	$ 100	$ -	$ 516	$ 2,175
Accrued payroll and personal leave time	840	33	-	-	873
Current portion of long-term debt	-	-	-	125	125
Notes payable	1,980	-	-	-	1,980
Other current liabilities	395	173	130	1,259	1,957
Total current liabilities	4,774	306	130	1,900	7,110
Current portion of long-term debt payable from restricted funds under indenture agreements for debt service	-	-	-	1,675	1,675
Long-term debt — less current portion	-	-	-	18,058	18,058
Other liabilities	-	-	2,042	1,090	3,132
Total liabilities	4,774	306	2,172	22,723	29,975
Net assets (deficit):					
Invested in capital assets — net of related debt	16,849	35	-	2,845	19,729
Restricted for debt service	-	-	-	1,047	1,047
Restricted by donors	66	-	6,367	-	6,433
Unrestricted	33,705	(254)	4,720	(768)	37,403
Total net assets (deficit)	50,620	(219)	11,087	3,124	64,612
Total liabilities and net assets (deficit)	$ 55,394	$ 87	$ 13,259	$ 25,847	$ 94,587

(Concluded)

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS — DISCRETE COMPONENT UNITS
YEAR ENDED SEPTEMBER 30, 2009
(In thousands)

	Halifax Hospice, Inc. d/b/a Hospice of Volusia/Flagler	Volusia Health Ventures, Inc. d/b/a Volusia Health Network	Halifax Medical Center Foundation, Inc.	Halifax Management System, Inc.	Total
Operating revenues:					
Net patient service revenue — before provision for bad debt	$ 46,749	$ -	$ -	$ -	$ 46,749
Provision for bad debt	(198)	-	-	-	(198)
Net patient service revenue	46,551				46,551
Other revenue	1,280	1,008	3,783	2,615	8,686
Total operating revenues	47,831	1,008	3,783	2,615	55,237
Operating expenses:					
Salaries and benefits	22,889	770	239	-	23,898
Supplies	2,741	7	-	-	2,748
Purchased services	13,040	163	30	-	13,233
Depreciation and amortization	636	1	-	899	1,536
Interest	31	-	-	1,090	1,121
Leases and rentals	1,703	70	-	-	1,773
Other	2,469	33	5,225	-	7,727
Total operating expenses	43,509	1,044	5,494	1,989	52,036
Income (loss) from operations	4,322	(36)	(1,711)	626	3,201
Nonoperating revenues, expenses and gains/(losses):					
Investment income	1,531	-	-	3	1,534
Donation revenue	1,248	-	-		1,248
Nonoperating gains — net	171	-	-	-	171
Net restricted expenditures in excess of designated donations	-	-	(70)	-	(70)
Total nonoperating revenues, expenses and gains/(losses)	2,950		(70)	3	2,883
Increase/(decrease) in net assets	7,272	(36)	(1,781)	629	6,084
Net assets (deficit) at beginning of year	-	-	-	-	142,941
Adjustment to beginning balance*	-	-	-	-	(84,413)
Net assets (deficit) at beginning of year — as adjusted	43,348	(183)	12,868	2,495	58,528
Net assets (deficit) at end of year	$ 50,620	$ (219)	$ 11,087	$ 3,124	$ 64,612

*The remaining net assets of FHCP, in the amount of $84.4 million, were transferred from a discrete component unit to a blended component unit. The transfer, assumed to have occurred as of the beginning of fiscal year 2009 for financial reporting purposes, is reported as an adjustment to the Medical Center's beginning balance of net assets.

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

SCHEDULE OF NET ASSETS — OBLIGATED GROUP
SEPTEMBER 30, 2009
(In thousands)

Assets		
Current assets:		
Cash and cash equivalents	$	176,498
Investments		3,622
Current assets whose use is limited:		
Trustee-held self-insurance funds		1,824
Accounts receivable — patients, net of estimated uncollectibles of $43,965		44,784
Inventories		10,578
Other current assets		9,261
Total current assets		246,567
Restricted funds under indenture agreements for debt service		20,135
Noncurrent assets whose use is limited:		
Board-designated funded depreciation		103,335
Trustee-held funds for capital projects		23,947
Capital assets — at cost — net		359,113
Investment in affiliates		57,969
Other assets		20,789
Total assets	$	831,855

(Continued)

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

SCHEDULE OF NET ASSETS — OBLIGATED GROUP
SEPTEMBER 30, 2009
(In thousands)

Liabilities and Net Assets	
Current liabilities:	
Accounts payable and accrued liabilities	$ 48,165
Accrued payroll and personal leave time	21,519
Current portion of accrued self-insurance liability	6,907
Other current liabilities	5,712
Total current liabilities	82,303
Long-term debt — less current portion	344,289
Accrued self-insurance liability — less current portion	6,107
Other liabilities	19,550
Total liabilities	452,249
Net assets:	
Invested in capital assets — net of related debt	92,093
Unrestricted	287,513
Total net assets	379,606
Total liabilities and net assets	$ 831,855

See notes to financial statements. (Concluded)

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS — OBLIGATED GROUP
YEAR ENDED SEPTEMBER 30, 2009
(In thousands)

Operating revenues:	
Net patient service revenue — before provision for bad debt	$ 462,713
Provision for bad debt	(88,637)
Net patient service revenue	374,076
Other revenue	54,547
Total operating revenues	428,623
Operating expenses:	
Salaries and benefits	222,974
Supplies	80,356
Purchased services	36,653
Depreciation and amortization	14,407
Interest	11,063
Ad valorem tax-related expenses	12,735
Leases and rentals	13,819
Other	28,084
Total operating expenses	420,091
Income from operations	8,532
Nonoperating revenues, expenses and gains/(losses)	
Investment income	3,176
Donation revenue	1,086
Nonoperating gains (losses) — net	(5)
Income from affiliates	10,960
Change in fair value of swap liability	(7,419)
Total nonoperating revenues, expenses and gains	7,798
Gain on the sale of discontinued operations	42,564
Change in net assets	58,894
Net assets, beginning of year	320,712
Net assets, end of year	$ 379,606

HALIFAX HOSPITAL MEDICAL CENTER
d/b/a HALIFAX HEALTH

NOTE TO SCHEDULES — OBLIGATED GROUP
YEAR ENDED SEPTEMBER 30, 2009

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Obligated Group — The Medical Center and Holdings are the only members of the Obligated Group. The Medical Center has made investments in entities which are expected to produce income, appreciation in value or other economic benefit. These affiliates include Hospice of Volusia/Flagler, Volusia Health Ventures, Inc. d/b/a Volusia Health Network, Halifax Medical Center Foundation, Inc., and Halifax Management System, Inc. Under the provisions of the Medical Center's Master Trust Indenture ("MTI"), dated June 1, 2006, by and between the Medical Center and Wells Fargo Bank, National Association, investments in affiliates are accounted for under the equity method. The net assets invested in capital assets — net of related debt, and unrestricted net assets of the affiliates are included in investment in affiliates on the schedule of net assets and income from affiliates is separately disclosed on the schedule of revenues, expenses, and changes in net assets. In accordance with the MTI, the Obligated Group does not have ownership rights to the affiliates' donor restricted net assets; therefore, they are excluded from investments in affiliates.

The affiliates are not members of the Obligated Group and are not required to pay operating expenses of the Obligated Group. In addition, except in the event of or to cure a default, affiliates are not required to make any payments with respect to the outstanding indebtedness of the Medical Center.

OTHER REPORT

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Board of Commissioners
Halifax Hospital Medical Center d/b/a
Halifax Health
Daytona Beach, Florida

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of Halifax Hospital Medical Center d/b/a Halifax Health ("Halifax"), as of and for the year ended September 30, 2009, which collectively comprise Halifax's basic financial statements and have issued our report thereon dated January 13, 2010. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Other auditors audited the financial statements of Halifax Management Systems, Inc. (a discrete component unit) and the fiduciary activities of Halifax as described in our report on Halifax's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Halifax's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Halifax's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Halifax's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

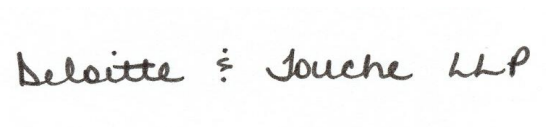
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Halifax's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of the Board of Commissioners, Audit Committee, management, and Auditor General, State of Florida, and is not intended to be, and should not be, used by anyone other than these specified parties.



January 13, 2010

Interim Financial Statements: Nine Months Ended June 30, 2012

HALIFAX HEALTH

HALIFAX
HEALTH

July 30, 2012

I, the undersigned, Chief Financial Officer do hereby certify as follows:

1) I have reviewed the financial statements, and other financial information included with the financial statements, of Halifax Health and Halifax Medical Center Restricted Group as of and for the nine months ended June 30, 2012.

2) To the best of my knowledge, these financial statements and other financial information included with the financial statements do not contain an untrue statement of material fact and fairly present in all material respects the financial condition and results of operations as of, and for, the periods presented.

3) I am responsible for establishing and maintaining procedures that ensure that material information relating to the company is made known to us by others, particularly during the periods presented.

4) I have disclosed to the external auditors and the Audit Committee of the Board of Commissioners:

   a. all significant deficiencies in the design or operation of internal controls which could adversely affect the ability to record, process, summarize and report financial data and have identified for the auditors any material weaknesses in internal controls;

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in internal controls.

5) I have determined that there were no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Eric M. Peburn
Chief Financial Officer

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halifaxhealth.org

Halifax Health
Summary Financial Narrative
For the nine months ended June 30, 2012

The year-to-date operating performance of Halifax Health (HH) is above budgeted targets. HH's year-to-date performance compared to budget and long-range targets (S&P "A" rated medians) for key financial indicators is as follows.

	YTD Actual FY12	YTD Budget FY12	YTD Actual vs. Budget	S&P "A"	YTD vs. S&P "A"
Total Margin	4.2%	1.9%	Favorable	4.6%	Unfavorable
Operating Margin	-0.3%	-0.7%	Favorable	2.8%	Unfavorable
EBIDA Margin	11.0%	8.7%	Favorable	12.1%	Unfavorable
Days Cash on Hand	273	261	Favorable	202	Favorable
Cash to Debt	116.8%	114.6%	Favorable	145.2%	Unfavorable
Debt to Capitalization	43.6%	44.9%	Favorable	32.6%	Unfavorable
HHMC MADS Coverage	1.95	1.81	Favorable	4.20	Unfavorable

Halifax Health Medical Center

Statistical Summary--

- Admissions for the month are less than budget and last year, and year-to-date are greater than budget and less than last year.
- Patient days for the month are less than budget and greater than last year, and year-to-date are greater than budget and less than last year.
    - Observation patient day equivalent units for the month and year-to-date are less than budget and last year.
- Surgery volumes, excluding Twin Lakes, for the month and year-to-date are less than budget and last year.
- Emergency Room visits for the month and year-to-date are less than budget and last year.

Financial Summary --

- Net patient service revenue for the month is 0.42% less than budget and 5.1% greater than last year, and for the year-to-date is 0.16% less than budget and 2.5% greater than last year.
- Operating efficiencies and certain favorable expense results have contributed to year-to-date operating expenses being $2.0 million or 0.6% less than budget.
- Loss from operations year-to-date of $3.1 million compares favorably to budget by $2.0 million.
- Nonoperating gains year-to-date of $8.9 million, including investment income of $8.8 million, are greater than budget by $1.4 million.
- The year-to-date increase in net assets of $5.7 million compares favorably to budget by $3.4 million.

Hospice of Volusia/Flagler

Statistical Summary –

- Patient days for the month and year-to-date are greater than budget and last year.

Financial Summary --

- Net patient service revenue for the month is 2.1% greater than budget and 8.2% greater than last year, and year-to-date is 0.43% greater than budget and 4.6% greater than last year.
- Income from operations year-to-date is $2.2 million, which is $419,000 greater than budget.
- Nonoperating gains year-to-date of $6.5 million, including investment income of $5.4 million, are greater than budget by $4.0 million.
- The year-to-date increase in net assets $8.7 million compares favorably to budget by $4.5 million.

Other Component Units - The financial performance is consistent with budgeted expectations.

Halifax Hospital Medical Center
Historical Utilization

	Fiscal Year Ended September 30,			Nine-Months Ended June 30,
	2009	2010	2011	2012
Inpatient Activity:				
Admissions	26,650	24,587	23,347	17,455
Patient Days	132,732	121,616	118,076	89,955
Average Available Beds	613	558	558	541
Average Percent Occupancy	59.3%	59.7%	61.0%	60.7%
Average Length of Stay (Days)	5.0	4.9	5.1	5.2
Average Daily Census	364	333	323	328
Outpatient Activity:				
Oncology Visits	52,619	50,970	46,614	36,237
Other Outpatient Visits	103,898	94,256	86,750	64,225
Clinic Visits	17,512	13,229	17,029	14,526
Emergency Department	123,340	122,587	121,686	88,598
Total	**297,369**	**281,042**	**272,079**	**203,586**
Surgical Activity: *				
Inpatient	6,172	5,511	5,437	4,132
Outpatient	9,110	9,035	10,899	8,407
Total	**15,282**	**14,546**	**16,336**	**12,539**

* Surgical activities for fiscal years 2009, 2010 and 2011 were restated to be comparable with the basis of measurement in the nine-month period. Surgical activity previously included a count of each procedure performed. Beginning in 2012, the basis of measurement was changed to only include a count of each surgical case patient. The differences between these two measurements range from 3% to 4% for the periods presented.

Halifax Hospital Medical Center
Sources of Payment

	Fiscal Year Ended September 30,			Nine-Months Ended June 30,
	2009	2010	2011	2012
Payment Source:				
HMO/PPO(1)	33.7%	33.8%	33.6%	33.3%
Medicare(2)	31.2%	29.5%	28.9%	29.5%
Commercial/Other	22.1%	21.6%	20.7%	23.3%
Medicaid(3)	12.3%	14.3%	16.0%	13.1%
Uninsured	0.7%	0.8%	0.8%	0.8%
Total	100.0%	100.0%	100.0%	100.0%

(1) Includes Medicare HMO

(2) Includes Medicare reimbursement, deductibles and co-insurance (net of contractual adjustments).

(3) Includes Medicaid/Medicaid HMO reimbursement (net of contractual adjustments)

Halifax Hospital Medical Center (Obligated Group)
Statements of Net Assets
($ in thousands)

	September 30,			June 30,
	2009	2010	2011	2012
Assets				
Current Assets				
Cash and cash equivalents	$176,498	$60,373	$33,736	$28,768
Investments	3,622	127,311	150,766	156,685
Trustee-held self insurance funds	1,824	1,790	971	923
Accounts receivable-patients, net	44,784	40,896	38,050	42,385
Inventories	10,578	10,798	11,092	12,236
Other current assets	9,261	12,282	8,449	16,611
Total current assets	246,567	253,450	243,064	257,608
Restricted funds under indenture agreements for debt service	20,135	20,331	20,197	20,355
Noncurrent assets whose use is limited:				
Trustee-held funds	23,947	0	0	0
Board-designated funded depreciation	103,335	145,291	163,989	166,114
Capital assets, at cost, net	359,113	344,677	344,382	337,763
Investment in affiliates	57,969	68,789	77,066	90,472
Other assets	20,789	14,144	20,872	20,648
Deferred outflow of swap	0	23,839	32,141	35,000
Total assets	$831,855	$870,521	$901,711	$927,960
Liabilities and net assets				
Current liabilities:				
Accounts payable and accrued liabilities	$69,684	$58,974	$58,155	$66,151
Current portion of accrued self-insurance liability	6,907	6,514	5,718	6,412
Current portion of long-term debt	0	0	1,715	1,830
Other current liabilities	5,712	7,448	6,459	9,495
Total current liabilities	82,303	72,936	72,047	83,888
Long-term debt, less current portion	344,289	344,521	343,185	341,640
Accrued self-insurance liability, less current portion	6,107	5,320	7,782	7,331
Other long-term liabilities	19,550	5,231	10,442	4,858
Long-term value of swap	0	23,839	32,141	35,000
Net assets	379,606	418,674	436,114	455,243
Total liabilities and net assets	$831,855	$870,521	$901,711	$927,960

Note: Halifax Health implemented GASB 53 as of October 1, 2009.

Halifax Hospital Medical Center (Obligated Group)
Statements of Revenues, Expenses and Changes in Net Assets
($ in thousands)

	Year Ended September 30,			Nine-Months Ended June 30,
	2009	2010	2011	2012
Operating revenues:				
Net patient service revenue - before provision for bad debts	$462,713	$452,509	$478,422	$365,819
Provision for bad debts	(88,637)	(86,407)	(103,183)	(72,972)
Net patient service revenue	374,076	366,102	375,239	292,847
Ad valorem tax revenue	41,605	34,560	26,573	16,450
Other revenue	12,942	12,698	12,881	10,096
Total operating revenues	428,623	413,360	414,693	319,393
Operating expenses:				
Salaries and benefits	222,974	205,846	215,635	167,484
Purchased services	36,653	40,731	76,322	32,212
Supplies	80,356	75,461	38,529	59,743
Depreciation and amortization	14,407	21,543	19,217	14,670
Interest	11,063	18,425	18,614	14,222
Ad valorem tax related expenses	12,735	10,538	8,146	9,270
Leases and rentals	13,819	12,779	10,901	6,286
Other	28,084	26,546	25,284	18,636
Total operating expenses	420,091	411,869	412,648	322,523
Income (loss) from operations	8,532	1,491	2,045	(3,130)
Nonoperating revenues, expenses, and gains (losses):				
Investment income, net	3,176	11,100	6,184	8,769
Donation revenue	1,086	149	655	376
Nonoperating gains (losses), net	(5)	(114)	279	(146)
Income from affiliates	10,960	10,820	8,277	13,406
Change in fair market value of swap	(7,419)	0	0	0
Impairment loss on building	0	(5,792)	0	0
Total Nonoperating revenues, expenses, and gains (losses)	7,798	16,163	15,395	22,405
Gain (loss) on sale of discontinued operations	42,564	4,756	0	(146)
Increase in net assets	$58,894	$22,410	$17,440	$19,129

Note: Halifax Health implemented GASB 53 as of October 1, 2009.

Halifax Health
Statements of Net Assets
($ in thousands)

	September 30,			June 30,
	2009	2010	2011	2012
Assets				
Current Assets				
Cash and cash equivalents	$186,323	$70,264	$34,986	$30,995
Investments	36,958	166,501	197,434	215,926
Trustee-held self insurance funds	1,824	1,790	971	923
Accounts receivable-patients, net	48,404	44,616	41,973	47,084
Inventories	10,656	10,867	11,180	12,324
Other current assets	9,356	13,909	8,584	16,771
Total current assets	293,521	307,947	295,128	324,023
Restricted funds under indenture agreements for debt service	22,788	22,984	20,407	20,559
Noncurrent assets whose use is limited:				
Trustee-held funds	23,947	0	0	0
Board-designated	103,335	147,942	166,639	168,764
Other	3,283	720	5,854	5,956
Capital assets, at cost, net	398,698	383,348	381,522	373,885
Other assets	22,901	15,997	26,362	24,547
Deferred outflow of swap	0	23,839	32,141	35,000
Total assets	$868,473	$902,777	$928,053	$952,734
Liabilities and net assets				
Current liabilities:				
Accounts payable and accrued liabilities	$72,732	$61,893	$60,353	$68,576
Current portion of accrued self-insurance liability	6,907	6,514	5,718	6,412
Short-term debt	1,980	0	0	0
Other current liabilities	7,669	9,356	9,023	11,889
Total current liabilities	89,288	77,763	75,094	86,877
Current portion of long-term debt	1,800	1,755	3,729	3,892
Long-term debt, less current portion	362,347	360,707	355,228	352,186
Accrued self-insurance liability, less current portion	6,107	5,320	7,782	7,331
Other long-term liabilities	22,682	8,076	12,112	6,352
Long-term value of swap	0	23,839	32,141	35,000
Net assets	386,249	425,317	441,967	461,096
Total liabilities and net assets	$868,473	$902,777	$928,053	$952,734

Note: Halifax Health implemented GASB 53 as of October 1, 2009.

Halifax Health
Statements of Revenues, Expenses and Changes in Net Assets
($ in thousands)

	Year Ended September 30,			Nine-Months Ended June 30,
	2009	2010	2011	2012
Operating revenues:				
Net patient service revenue - before provision for bad debts	$509,462	$497,978	$523,542	$400,965
Provision for bad debts	(88,835)	(86,683)	(103,543)	(73,403)
Net patient service revenue	420,627	411,295	419,999	327,562
Ad valorem tax revenue	41,605	34,560	26,573	16,450
Other revenue	21,628	22,035	23,618	14,233
Total operating revenues	483,860	467,890	470,190	358,245
Operating expenses:				
Salaries and benefits	246,872	229,387	239,502	186,253
Purchased services	49,886	53,521	52,086	42,097
Supplies	83,104	78,265	79,034	61,863
Depreciation and amortization	15,943	23,100	20,561	15,726
Interest	12,184	19,455	19,296	14,620
Ad valorem tax related expenses	12,735	10,538	8,146	9,270
Leases and rentals	15,592	14,542	12,378	7,634
Other	35,811	30,066	28,826	21,916
Total operating expenses	472,127	458,874	459,829	359,379
Income (loss) from operations	11,733	9,016	10,361	(1,134)
Nonoperating revenues, expenses, and gains (losses)				
Investment income, net	5,207	13,566	4,574	16,434
Donation revenue	2,334	1,341	1,606	4,127
Nonoperating gains (losses), net	166	(114)	224	(152)
Net restricted donations in excess of designated expenditures	(70)	(363)	0	0
Change in fair market value of swap	(7,419)	0	0	0
Impairment loss on building	0	(5,792)	(115)	0
Income from discontinued operations	4,307	0	0	0
Total Nonoperating revenues, expenses, and gains (losses)	4,525	8,638	6,289	20,409
Gain (Loss) on sale of discontinued operations	42,564	4,756	0	(146)
Increase in net assets	$58,822	$22,410	$16,650	$19,129

Note: Halifax Health implemented GASB 53 as of October 1, 2009.

Halifax Health
Statements of Cash Flows
($ in thousands)

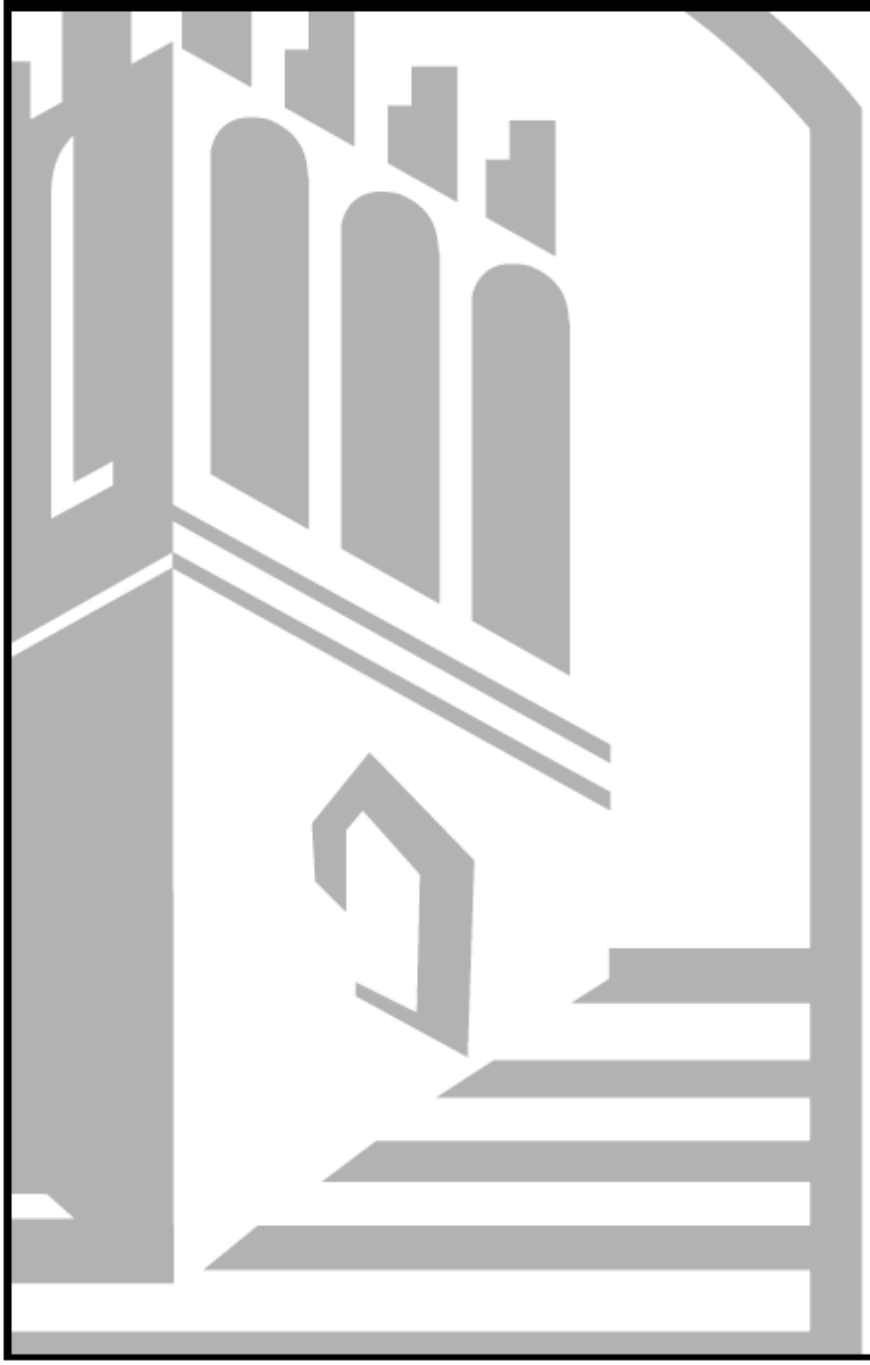
	Fiscal Year Ended September 30,			Nine Months Ended
	2009	2010	2011	June 30, 2012
Cash flows from operating activities:				
Receipts from third party payors and patients	$435,116	$415,970	$429,074	$322,907
Payments to employees	(302,026)	(238,457)	(239,440)	(187,769)
Payments to suppliers	(180,400)	(133,466)	(135,961)	(114,004)
Receipt of ad valorem taxes	41,604	34,560	26,573	21,406
Other receipts	95,648	21,665	28,932	18,030
Other payments	(17,998)	(48,397)	(56,324)	(32,309)
Net cash provided by operating activities	71,944	51,875	52,854	28,261
Cash flows from noncapital financing activities:				
Payment for acquisition of business	-	-	(6,950)	(200)
Proceeds from (payments for) sale of discontinued operations	-	3,328	5,000	(96)
Proceeds from donations received	2,548	1,341	1,606	1,495
Payment of notes payable	(400)	(1,980)	-	-
Payment of interest on notes payable	(73)	(141)	(44)	(32)
Payments for sale of business	(4,920)	-	-	-
Proceeds from sale of business, less cash sold	29,578	-	-	-
Nonoperating gain (loss)	166	(206)	263	87
Net cash provided by (used in) noncapital financing activities	26,899	2,342	(125)	1,254
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(65,364)	(17,763)	(18,803)	(11,282)
Proceeds from disposals	-	1,862	2,719	3,228
Payment of long-term debt	(8,557)	(1,827)	(18,743)	(3,141)
Proceeds from issuance of long-term debt	-	-	14,429	-
Payment of interest on long-term debt	(17,812)	(19,082)	(18,820)	(17,513)
Net cash used in capital financing activities	(91,733)	(36,810)	(39,218)	(28,708)
Cash flows from investing activities:				
Realized investment income	6,063	5,977	11,955	9,341
Purchases of investments/limited use assets	(939,461)	(276,264)	(77,856)	(47,204)
Sales/Maturities of investments/limited use assets	978,856	136,821	17,112	33,065
Net cash provided by (used in) investing activities	45,458	(133,466)	(48,789)	(4,798)
Net increase (decrease) in cash and cash equivalents	52,568	(116,059)	(35,278)	(3,991)
Cash and cash equivalents at beginning of period	133,755	186,323	70,264	34,986
Cash and cash equivalents at end of period	$186,323	$70,264	$34,986	$30,995

Halifax Health Code of Conduct

HALIFAX HEALTH

Our Code of Conduct

The governing document for the Halifax Health Corporate Ethics and Compliance Program



A Message from Our Chief Executive Officer

Dear Fellow Team Members:

Halifax Health has been built on the belief that we all want to do the right thing as we conduct our business affairs in the pursuit of excellence in health care. This Code of Conduct, which we will often refer to as ***Our Values in Action***, is designed to increase your awareness of general compliance issues and business ethics as they apply to health care. It also provides a way for all of us better understand how Halifax Health conducts its business affairs – both today and in the future. The information contained in this document will expand upon what you already know and help clarify areas that may have been unclear.

If you have any questions or concerns regarding the Code, several channels are available to assist you. It is suggested you discuss the issue with your supervisor first. If you are uncomfortable going to your supervisor, you may try to speak with another member of the management team in your affiliate, or the affiliate's Compliance Director or similarly titled individual. In the training you will receive, you will be given information on how to contact the Compliance Officer or other member of our Compliance Committee. You may also call the Ethics and Concerns Help Line:

Halifax Health and affiliates (386) 258-4800

Halifax Health is committed to providing you with a work place that encourages and supports open, honest communication and trust among each and every member of our organization. Our Corporate Ethics and Compliance Program demonstrates that commitment and allows us to take an active role in safeguarding our tradition of strong moral, ethical and legal standards of conduct.

We thank you for helping put ***our values into action***.

Jeff Feasel, President/CEO

Table of Contents

Code of Conduct Summary

Our Values in Action

We value an ethical, honest and positive work place and putting these values into action depends on every member of our organization.

Compliance with Laws, Rules, Regulations and our own Policies

We are committed to full compliance with all federal, state and local laws and regulations. We will immediately and directly report any actual or perceived violation of this Code of Conduct in accordance with our reporting policy.

We will also comply with our own policies, standards and procedures. This includes those that apply System-wide, those that are specific to an affiliate, and those that apply within a department.

Relationships with Patients and Health Plan Members

We are expected to know and understand the rights of the individuals we serve, and to provide care in a manner that recognizes and preserves the individual's right to treatment with dignity and respect.

We will provide treatment to all individuals who have an emergency medical condition, and we will not delay treatment in order to inquire about the individual's method of payment.

Our patients will be informed of their right to make advance directives relating to health care and have them followed within the limits of the law.

Relationships with Customers, Suppliers and Third Party Payers

We are committed to providing services that meet established quality standards and our contractual obligations.

We have a duty to disclose current, accurate and complete cost and pricing data and to be honest in all representations to the public and our business associates.

We will refrain from engaging in unfair practices that might restrict competition, such as discussion of pricing with competitors.

We will not offer or pay anything of value to induce someone to refer a patient or use Halifax Health services.

We are committed to ensuring that claims for reimbursement are accurate, that patients receive timely bills, and all questions regarding their bills are answered.

When we submit time or expense reports or use time clocks, we do so in a complete, accurate and timely manner. We will not misrepresent time worked or the costs incurred by the enterprise.

Using the Organization's Resources

We will not contribute or donate Halifax Health funds, products, services, use of facilities or other resources to any political cause without prior approval.

Charitable contributions received from others must directly benefit Halifax Health. We will not accept contributions in exchange for favorable treatment or a commitment to purchase supplies or services.

We will not seek to gain an improper business advantage by offering courtesies such as entertainment, meals, transportation or lodging to our business associates.

We will not solicit or accept education or research grants that create even the appearance of impropriety.

We will not use Halifax Health resources for personal reasons.

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Avoiding Abuses of Trust

We will not accept cash or anything of substantial value from patients, patient family members or business associates of Halifax Health.

We will avoid outside employment, financial interests, investments or other outside activities that impair our productivity or decision-making while at our Halifax Health job.

We will not trade in the securities of any company on the basis of non-public information acquired through our relationship with Halifax Health.

Safeguarding Information

We will strictly safeguard all confidential information with which we are entrusted. We will not use, discuss or disclose such information except to serve our patients, carry out our job duties, or as required or allowed by law. This responsibility extends beyond the period of employment.

We will safeguard computer access codes from unauthorized use or disclosure. We will protect electronic information by using computers responsibly and in accordance with our appropriate use policies.

We will not use, copy or distribute copyrighted information and other intellectual property in violation of applicable laws or contractual obligations.

Workplace Conduct and Employment Issues

We will report any incidences of discrimination, abuse or sexual harassment involving patients, visitors or team members.

We are committed to providing job opportunities to applicants and team members without discrimination. We will comply with laws governing the hiring of former government employees.

We will comply with workplace safety regulations and standards and participate in safety education and training.

Team members who are required to do so will maintain and hold their license or certification in a current and active status.

We will maintain a drug and alcohol-free workplace, and strictly control the distribution and use of prescription drugs and controlled substances.

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Program Implementation

To oversee our Compliance Program, Halifax Health has a Compliance Officer, a Compliance Committee and some Halifax Health affiliates have a designated compliance official to oversee the program within the affiliate.

Every team member has a duty to report issues or concerns they believe may be a violation of this Code of Conduct, federal, state or local laws or internal policies and standards. No adverse action or retribution will be taken against a team member because he/she reports a concern or suspected violation. A report can be made to any member of the leadership team, the affiliate's compliance official, any member of the Compliance Committee, Halifax Health Compliance Officer, on Code of Conduct statements completed each year, or anonymously using the Ethics and Concerns Help Line.

Halifax Health and Affiliates Help Line: (386) 258-4800

New team members will attend Corporate Ethics and Compliance training as part of their orientation. Annually, team members will attend additional education on a variety of topics, including the Code of Conduct.

Team members will sign or electronically submit a Statement of Understanding of the Code of Conduct upon initial employment and annually thereafter.

Internal audits and investigations relating to compliance will be conducted in many areas, including, but not limited to, computer usage, billing and financial reporting.

Strict adherence to the Code of Conduct is vital. Violations may result in discipline ranging from a warning and reprimand, to discharge from employment.

Introduction

Halifax Health (Halifax Health) is a family of companies operated by Halifax Hospital Medical Center, an independent taxing district chartered by the State of Florida. Halifax Health is responsible for the operation of all companies connected with the district. The reputation of Halifax Health is dependent on the successful and ethical operation of each affiliated company and entity. Therefore, it is critically important that we all meet the highest standards of legal and ethical conduct.

To protect Halifax Health's reputation and to promote consistency in how we conduct ourselves, the Board of Commissioners has established this Code of Conduct as part of its Corporate Ethics and Compliance Program. The purpose of this Program is to safeguard our tradition of strong moral, ethical and legal standards of conduct. We accomplish this by preventing and detecting problems that may result in a liability, and taking corrective action promptly when problems are found. Our organization's conduct must conform to the highest ethical standards and be in accordance with all applicable laws, rules and regulations. This also applies to all team members of Halifax Health.

This Code of Conduct establishes the general policies and standards with which we are expected to comply as a condition of employment. The policies and standards referred to in this document are not meant to cover all situations. Any doubts or questions concerning a particular situation should be referred either to your immediate supervisor, another member of the management team in the affiliate where you work, the director of compliance for your affiliate, if applicable, or a member of the Compliance Committee.

Every team member is expected to understand and comply with the rules and standards established by this Code of Conduct. The standards of conduct that govern Halifax Health's relationship with the government are applicable to all of Halifax Health's team members, regardless of their job duties or business unit. Interpretations or exceptions to this Code of Conduct may be made only by a member of the Compliance Committee. A team member who violates any provision of this Code of Conduct will be subject to disciplinary action, up to and including discharge from employment. In addition, promotion of and adherence to this Code of Conduct and to the Program will be one criterion used in evaluating the performance of supervisors, managers, and other high-ranking team members. Additional policies and standards that are set forth in any other documents within Halifax Health affiliates and departments should be consistent with this Code of Conduct. In case of any inconsistency, this Code of Conduct shall govern. In some areas, it may be appropriate for an affiliate's or a department's standards to be more restrictive than this Code.

> "Genuine success does not come from proclaiming our values, but from consistently putting them into daily action."
>
> - Kenneth Blanchard & Michael O'Connor, from *Managing By Values*

Our Mission

OUR MISSION is to be the community healthcare leader through exceptional talent and superior patient centered service delivered in a financially sustainable manner.

Our Values

Halifax Health will cultivate a positive workplace in which each team member is valued, respected and has an opportunity for personal and professional growth. We will develop patient centered systems of care.

Compliance with Laws and Regulations

We are committed to full compliance with all federal, state and local laws and regulations. We will immediately and directly report any actual or perceived violation of this Code of Conduct in accordance with our reporting policy discussed in more detail below under Implementation. Also, we will comply with all laws and regulations related to licensure, certificate of need, and participation in government health care programs.

Compliance with Our Own Policies and Standards

We are committed to full compliance with our own policies, standards and procedures. This includes those that apply System-wide, those that are specific to an affiliate, and those that apply within a department. Team members will be made aware of these policies and procedures during general orientation, and, if applicable, orientation within the department where they work.

Relationships with Patients and Health Plan Members

Emergency Care

Our hospital affiliates will comply with the Emergency Medical Treatment and Active Labor Act (EMTALA), and all affiliates will comply with applicable state laws relating to the provision of emergency care. We will provide treatment to all individuals who have an emergency medical condition, and we will not delay treatment or an appropriate medical screening in order to inquire about the individual's method of payment or insurance coverage. We will not transfer or discharge patients based on their ability to pay. Individuals may only be transferred to another facility in limited circumstances after the individual has been stabilized. Refer to our policies on emergency care for more information.

Advance Directives

Our patients will be informed of their right to make advance directives and have them followed within the limits of the law. We shall comply with all policies and procedures and federal and state laws and regulations governing advance directives.

Patients' and Members' Rights

All team members are expected to know and understand the rights of the individuals we serve. It is our policy to provide care in a manner that recognizes and preserves the individual's right to impartial treatment with respect and dignity. Health care services will be based on identified healthcare needs, and access to care is provided without regard to race, creed, sex, national origin, source of payment, age, disability, or whether advance directives have been specified. Rights of patients also include:

The right to receive a written copy of their rights The right to personal and informational privacy Freedom from abuse, harassment and unreasonable restraint The right to know the identity and professional status of individuals providing services When in a health care facility[1], the right to know what support services are available and the right to access those services The right to consult with a specialist at his/her own expense The right to be informed of any research or experimentation affecting treatment, and the right to refuse to participate in such activities The right to receive complete and accurate information concerning his or her diagnosis and treatment	The right to participate in ethical issues that arise out of his or her care When in a health care facility[1], the right to communicate with people outside the facility within reasonable limits The right to informed participation in health care decisions, including plans of care and explanations of medically significant risks and probable duration of incapacitation The right to refuse treatment to the extent permitted by law When services are billable to a patient, member or third party, the right to request and receive an itemized bill and explanation of the bill regardless of the source of payment The right to a prompt and reasonable response to a question or request The right to express a grievance and receive a response

[1] For purposes of this section, health care facility means a hospital, hospice, or long-term care facility owned or operated by Halifax Health.

Relationships with Customers, Suppliers and Third Party Payers

Quality of Service

We are committed to providing services that meet all of our contractual obligations and established standards for quality. These include those established by our own policies and, where applicable, those of certain accrediting organizations such as the Joint Commission (web site: www.jointcommission.org e-mail: complaint@jointcommission.org) and the URAC (web site: www.urac.org). Team members who have a safety or quality concern should report the concern to the quality improvement or risk management official at their affiliate. They may also report concerns to the appropriate accrediting agency. No disciplinary action will be taken against any team member for reporting a quality or safety concern.

Contract Negotiation

The submission to a federal government customer of a representation, quotation, statement or certification that is false, incomplete or misleading can result in civil and/or criminal liability. The individuals involved and any supervisors who condone such practices may also be sanctioned. We have an affirmative duty to disclose current, accurate and complete cost and pricing data where such data are required under appropriate federal or state law or regulation. Those involved in the pricing of contract proposals or the negotiation of a contract must ensure the accuracy, completeness and currency of all data generated and given to supervisors and others. We must also be honest in all representations made to customers and suppliers, both governmental and commercial.

Marketing and Advertising Activities

In all marketing and advertising activities, we will offer only factual information or documented evidence to the general public. We will not distort the truth, make false claims, engage in unfair comparative advertising, nor will we unduly attack or disparage another health care provider. In addition, all direct-to-consumer marketing activities require legal review in advance if they involve giving anything of value to a patient, health plan member or potential source of referrals.

Anti-Competitive Practices

Antitrust laws are designed to ensure competition and to preserve the free enterprise system. Activities that may implicate antitrust laws include agreements or understandings among competitors to

- Fix prices or price-related terms; or
- Allocate customers, services or territories; or
- Refuse to deal with a supplier or customers except on collectively determined terms.

Antitrust laws may also be implicated in market surveys, trade associations, joint ventures and other legitimate business collaborations.

This is a highly complex area, and this document cannot cover all situations in which antitrust laws may apply. Team members should take special care in this area, and promptly refer any questions to management, or a member of the Compliance Committee, who should then consult General Counsel.

For more information, refer to the Halifax Health Antitrust Compliance Plan in Appendix D.

Anti-kickback Statutes

Federal and state laws prohibit the offering anything of value to an entity or person to induce that person to purchase services from or refer a patient to Halifax Health. The laws also prohibit anyone from accepting anything of value for such purpose. As this is a highly complex area, this document cannot list all situations in which the anti-kickback laws may apply. Therefore, we must take special care in this area, and promptly refer any questions to a member of the Compliance Committee, who should refer the question to General Counsel.

Examples of the types of actions that could violate the federal Medicare/Medicaid anti-kickback statute and similar state laws include the following:

- Offering or paying anything of value to induce someone to refer a patient to Halifax Health, including, but not limited to, the routine waving of co-payments;
- Offering or paying anything of value to anyone in marketing Halifax Health's services;
- Soliciting or receiving anything of value for the referral of Halifax Health patients to others;
- Giving or receiving free goods or discounts, except as permitted under applicable laws and regulations.

Billing, Reimbursement and False Claims

We are committed to ensuring that our billing and reimbursement practices comply with all federal and state laws, regulations, guidelines and our own policies. Claims for reimbursement must be accurate and reflect current payment methodologies. In affiliates that bill patients or third parties, we are committed to ensuring that they receive timely bills and that all questions regarding their bills are answered promptly.

Halifax Health has adopted various policies and procedures to ensure compliance with federal and state health benefit programs as well as rules relating to private insurance. These policies and procedures are necessary to avoid fines and other sanctions under state and federal False Claims Acts. For further information concerning these laws, see Appendix E, or discuss with your supervisor, the affiliate's compliance official, if applicable, or contact a member of the Compliance Committee.

Examples of the types of actions that could violate the federal and state false claims statutes include:

- Billing for services that were not rendered at all or were not rendered as described on the claim form;
- Duplicate billing;
- Failing to report overpayments or credit balances;
- Filing a claim for services that were rendered, but the services did not meet coverage requirements;
- Submitting a claim containing information known to be false such as incorrect diagnosis or procedure codes;
- Billing incorrectly for services provided by interns, residents and fellows in a teaching program;
- Falsifying treatment plans and medical records to maximize payments;
- Failing to complete required medical documents when required by health program requirements;

- Falsifying statements of medical necessity, or billing for services not medically necessary;
- Submitting a false cost report or rate request; and
- Misusing Social Security or Medicare symbols, emblems or names in marketing.

Charging of Costs & Time

When we submit time or expense reports, or use time clocks, we must be careful to do so in a complete, accurate and timely manner. We must also be careful to ensure that hours worked and costs incurred are applied to the correct accounts. We must not allow another person to use a time clock on our behalf, and we should not log time worked while on personal business.

A signature on a time sheet or time clock transaction is a representation that the time reported accurately reflects the time worked. The supervisor's signature on a timecard or expense report is a representation that it has been reviewed. It also shows that we have verified the validity and correctness of the hours or expenses reported. Supervisors must avoid placing pressure on team members that could lead them to believe that deviations from appropriate time reporting or cost charging practices will be condoned. We will not accept such practices. The affiliate where you work will have additional information on timekeeping and charging policies and procedures.

Using the Organizations' Resources

Making Political Contributions

We will not contribute or donate Halifax Health funds, products, services, use of Halifax Health facilities or other resources to any political cause, party or candidate without the advance written approval of the Chief Executive Officer, or member of the affiliate's Compliance Committee. However, team members may make voluntary personal contributions to any lawful political causes, parties or candidates as long as the individual does not represent that such contributions come from Halifax Health. In addition, the individual making a contribution must not obtain the money for the contribution from Halifax Health for the sole purpose of making such a contribution.

Providing Business Courtesies to Customers or Sources of Customers

Our success in the marketplace results from providing quality services at competitive prices. We do not seek to gain an improper advantage by offering business courtesies such as entertainment, meals, transportation or lodging to customers, referral sources or purchasers of Halifax Health services. We should never offer any type of business courtesy to a referral source or a purchaser for the purpose of obtaining favorable treatment or advantage. To avoid even the appearance of impropriety, we must not provide any referral source or purchaser with gifts or promotional items of more than nominal value, as defined in your affiliate's specific policy on such matters.

Except for additional restrictions that apply in the federal or state government area as noted below, we may pay for reasonable meal, refreshment and/or entertainment expenses for referral sources and purchasers of Halifax Health services. Such transactions may occur only occasionally, and may not be solicited by the recipient. They must not be intended to or likely to affect the recipient's business decisions with respect to Halifax Health. We may provide or pay travel or lodging expenses of a customer or source of customers, but only with the advance approval of the chief executive for the affiliate, or a designee. If the courtesy is for other than a directly related business purpose, advice from a member of the Compliance Committee should be sought.

Educational Activities Grants

Managers and others who are in a position to represent Halifax Health shall not receive educational grants that create even the appearance of impropriety. To avoid a conflict, we will follow "Gifts to Physicians from Industry" guidelines adopted by the American Medical Association's Council on Ethical and Judicial Affairs. Interpretative guidelines regarding educational grants may be obtained from the Halifax Health Compliance Department.

Research Grants

We must ensure that any funds provided through health care research or consulting agreements are for bona fide purposes. Research grants must also be made in a manner that clearly separates payments from any referrals for heath care services. All research grants from vendors must be approved by the department head and must be for legitimate, bona fide research. The affiliate's Institutional Review Board should be consulted when appropriate.

Health care services provided in connection with research may not be billable to government health benefit programs or other insurance. Managers considering research projects that involve the rendering of health care services should consult with the affiliate's Business Office or the Compliance Department for applicable billing rules.

Charitable Contributions

All charitable contributions received from vendors must directly benefit Halifax Health. Under no circumstances may a check be made payable to an individual at Halifax Health. We shall not accept any donations that are in conjunction with a marketing effort or sales promotion. Under no circumstances shall donations be accepted that require Halifax Health to use the donation to purchase supplies from the vendor making the contribution.

Government Customers

Halifax Health is a party to contracts with various governmental agencies. Examples include provider contracts wherein we provide services to or on behalf of the Medicare and Medicaid programs, either directly or as a subcontractor. It is essential that all team members are knowledgeable of, and comply with, all of the applicable laws, rules and regulations of governmental agencies with which we do business. We will not provide or pay for any meal, refreshment, entertainment, travel or lodging expenses for government team members without the prior approval of a member of the Compliance Committee. Governmental agencies may also have restrictions on the provision or acceptance of business courtesies, including meals and refreshments. Halifax Health's team members doing business with government agencies are expected to know and respect these restrictions.

Accurate Books and Accounts

All of Halifax Health's financial transactions must be properly authorized by management, and accurately and completely recorded on Halifax Health's books and records. Financial records and reports will be prepared and maintained in accordance with generally accepted accounting principles under an established system of internal controls. We will not make false, incomplete or unsupported corporate entries in our books. No undisclosed or unrecorded corporate funds will be established for any purpose, nor will Halifax Health's funds be placed in any personal or non-corporate account. Finally, all corporate assets must be properly protected. Periodically, property records will be compared with the actual property, and action taken to reconcile any variances. We will not fraudulently influence, coerce, manipulate, or mislead any internal auditor or independent public or certified accountant engaged in the performance of an audit of the financial statements.

Personal Use of the Organization's Resources

It is everyone's responsibility to safeguard the organization's resources, including time, materials, equipment, and information. It is not permissible to use the organization's resources for personal reasons without authorization from a supervisor. Occasional use of some items, like telephones, is permissible. Likewise, any community or charitable use of the organization's resources must be approved in advance by your supervisor. Under no circumstances should non-business use of the organization's resources interfere with your job duties or the job duties of others.

Avoiding Abuses of Trust

Team members must avoid any activity that might interfere or appear to interfere with decision-making in situations where the team member's personal interests conflict with Halifax Health's interests or the interests of Halifax Health's customers or suppliers.

Conflict of Interest

Unless advance written permission is given by the Compliance Committee or an affiliate's Chief Executive, no team member may have an employment, consulting or other business relationship with a competitor, customer or supplier. In addition, team members may not invest in any competitor, customer or supplier (except for moderate holdings of publicly-traded securities), unless such investment is approved in advance. Advance written permission is also required before one may invest in any privately held company or entity that performs services for Halifax Health, which employs providers who may refer patients to Halifax Health, or to which Halifax Health patients may be referred. However, employment with a competitor of Halifax Health is permitted so long as such employment is not in a management or administrative capacity, and no other factors that may give rise to a conflict of interest are present. Factors that may give rise to a conflict include any of the following:

- The outside interest places one in the position of representing (or appearing to represent) Halifax Health;
- The outside interest involves services substantially similar to those Halifax Health provides or is considering making available;
- The outside interest lessens the efficiency, alertness or productivity normally expected of team members in their jobs;
- The outside interest is with an individual or entity whose services are employed by Halifax Health;
- The outside interest is with an individual or entity that refers patients to Halifax Health, or with an individual or entity who provides services for or employs a source of referrals; or
- The outside interest is with an individual or entity to which patients of Halifax Health may be referred (for example, a provider of ancillary services).

All outside employment that raises any question in this regard must be disclosed and approved in advance by the affiliate's chief executive or Compliance Committee.

Acceptance of Gifts, Gratuities and Other Business Courtesies

We should never accept anything of value from patients, patient family members, or from someone currently doing or seeking to do business with Halifax Health, if the gratuity is offered or may appear to be offered in exchange for favorable treatment. Gifts of cash and cash equivalents are not appropriate in a health care setting and should always be tactfully refused or returned. To avoid even the appearance of impropriety, do not accept any gifts or promotional items of more than nominal value. Gifts received that are more than nominal in value must be reported to a member of the affiliate's Compliance Committee. Generally, "more than nominal value" means greater than $50. The gift policy may be stricter in some Halifax Health affiliates. For more information, consult your affiliate's internal policy on acceptance of gifts.

A team member may accept meals, drinks or entertainment only if such courtesies are unsolicited, infrequently provided and reasonable in amount. Such courtesies must also be directly connected with business discussions, unless an exception is approved by a supervisor. Do not accept reimbursement for lodging or travel without the express written approval of the manager responsible for the unit or group.

Insider Trading

No team member may trade in the securities of any company, or buy or sell any property or assets, on the basis of non-public information acquired through employment in Halifax Health, whether such information comes from Halifax Health or from another company with which Halifax Health has a confidential relationship.

Safeguarding Information

Confidential Information

Team members must strictly safeguard all confidential information with which they are entrusted. We may never discuss such information outside the normal and necessary course of Halifax Health's business. In particular, all team members must protect the privacy of our patients and health plan members, and the confidentiality of all information related to their care, and any past, current or future medical condition. Team members also have an obligation to respect and protect the "super-confidential" nature of records regarding substance abuse, mental health services and HIV/AIDS. Personal information about patients, fellow team members, medical staff and others with whom we do business should not be discussed except with those with a genuine need to know, and who have agreed to keep this information confidential.

Halifax Health's Restricted Information

It is Halifax Health's policy to control the dissemination of Halifax Health's proprietary information. Except as specifically authorized by management pursuant to established procedures, do not disclose to any outside party any non-public business, financial, personnel, commercial or technological information, or plans or data acquired during employment at Halifax Health. During the term of employment at Halifax Health, a team member should disseminate this type information only to individuals having a "need to know" and should protect the information from access by unauthorized personnel. Upon termination of employment, an individual may not copy, take or retain any documents containing Halifax Health's restricted information. The prohibition against disclosing Halifax Health's restricted information extends beyond the period of employment as long as the information is not in the public domain. An individual's agreement to continue to protect the confidentiality of such information after the term of employment ends is considered an important part of that person's obligations to Halifax Health.

Use of Electronic Systems

Many team members will be provided with access to one or more of the organization's computer systems. Computer access codes are the equivalent of a signature. Identification codes and passwords provided to access computer systems must never be disclosed to another. Team members must not attempt to learn another's access code, nor attempt to access a computer system with an access code other than their own. Compromised access codes must be reported to your supervisor immediately. Team members must not use any computer outside the scope of their job responsibilities. For example, using the computer to browse patient records out of curiosity is strictly prohibited.

The Internet, electronic mail, voice mail and facsimile machines are also used throughout Halifax Health. These electronic messaging systems are for business purposes only. Since complete privacy cannot be guaranteed when using an electronic messaging system, sensitive information must not be transmitted nor stored on these systems. Specific policies have been developed for the use of computers, the Internet and electronic messaging systems. Consult your affiliate's policies for more information on the use of these.

Government Proprietary and Source Selection Information

Halifax Health will not solicit nor will it receive any sensitive proprietary internal government information, including budgetary, program or source selection information, before it is available through normal channels.

Copyrights and Intellectual Property

Most commercially available books, periodicals, articles, electronic media and software are subject to copyrights or licenses. Many contracts with our business partners contain provisions that require us to protect their intellectual property. Unauthorized disclosure, copying or distribution of intellectual property could lead to severe fines and penalties under Federal copyright and contract laws. Team members may only make copies or disclose copyrighted or protected materials in accordance with applicable policies on such matters.

Workplace Conduct and Employment Issues

Harassment and Discrimination

Halifax Health supports a work environment free of discriminatory practices or sexual harassment involving patients, visitors or co-workers. It is the policy of Halifax Health that team members and their work environment shall be free from all forms of harassment. These behaviors include inappropriate jokes, slurs, and intimidation.

Sexual harassment in any form is not tolerated, including unwelcome sexual advances, request for sexual favors, and other verbal or physical conduct of a sexual nature. Any team member, who believes a team member, manager, supervisor or physician is subjecting him/her to sexual harassment, or their employment is being adversely affected by such conduct, should report such incidents to their supervisor, department manager, the team member relations supervisor, or human resources manager. Team members may contact the human resources department within their affiliate for specific reporting procedures.

Workplace Diversity and Equal Employment Opportunity

Halifax Health is enriched with the diversity of ethnic groups from all segments of our community. This diversity is reflected within the Halifax Health workforce. Treating team members fairly with respect and dignity is woven into the Halifax Health culture. All persons are entitled to equal employment opportunities, and Halifax Health is committed to providing job opportunities to applicants and team members without regard to race, color, religion, sex, age, marital status, national origin, disability, or any other legally protected status. Our policy of nondiscrimination prevails throughout every aspect of the employment process, including recruitment, selection, placement, training, compensation, promotion, transfer, and termination.

Health and Safety

Halifax Health will provide an environment that is safe for patients, visitors, team members, volunteers and medical staff. To meet this objective, all affiliates within Halifax Health will comply with all governmental regulations and safety standards as prescribed by State and Federal regulatory agencies. Safety education and training is provided for all staff members and is an ongoing process. The affiliate's safety official or safety committee will provide guidance on safety issues, as well as promotion of and administration of the safety policies to ensure a safe environment. Polices and procedures are in place to provide mechanisms for reporting incidents or addressing safety issues in a timely manner.

License and Certification Renewals

To maintain quality standards of care, and to comply with appropriate federal, state or local laws, Halifax Health requires team members in certain categories to provide a current license or certification. Halifax Health validates each license or certificate upon initial employment and on a periodic basis thereafter. Independent contractors and other businesses that are required to be licensed, certified, or hold certain other credentials are responsible for keeping such credentials current. Halifax Health will not allow any team member, business or independent contractor to work in Halifax Health without valid credentials as required by law.

Hiring of Federal and State Team members

Complex rules govern the recruitment and employment of government team members into private industry. We must obtain prior clearance from the affiliate's human resources department to discuss possible employment with, make offers to, or hire (as a team member or consultant) any current or former government team member (military or civilian).

Controlled Substances

Licensed pharmacists and medical staff are the only individuals authorized to fill medication orders within Halifax Health. Some team members have access to prescription drugs, controlled substances, and other medical supplies. Many of these substances are governed and monitored by specific regulatory agencies and they must be administered by physician order only. To minimize risks to patients, it is important that these items are handled properly and only by authorized individuals. If anyone is aware of a deviation from our controlled substance policies and procedures, it must be reported immediately to their supervisor, pharmacy management, or the affiliate's compliance director.

Refraining from Substance Abuse

It is the policy of Halifax Health to provide team members and customers with a working environment that is free of the issues associated with the use and abuse of controlled substances and alcohol. The consumption, possession, sale or purchase of alcohol on Halifax Health property is prohibited with the exception of events in conference, meeting or recreational facilities and approved in advance by management. Halifax Health also prohibits team members from arriving at work under the influence of alcohol or a controlled substance. If a team member is found to be in violation of this policy, management will determine the appropriate disciplinary action, which may include termination.

Program Implementation

Oversight

To oversee our Ethics and Compliance Program, a Compliance Officer and Compliance Committee have been appointed. The Compliance Officer reports to General Counsel for Halifax Health. The Compliance Committee includes General Counsel, Chief Financial Officer, Chief Human Resources Officer, the Compliance Officer and Director, Audit Services. From time to time, team member representatives are invited to participate on the Committee, thus bringing a broad perspective to the Program.

Some Halifax Health affiliates have designated a director of compliance, or similarly titled position, and an affiliate Compliance Committee to oversee the program within the affiliate. Compliance directors and other affiliate representatives participate on the Compliance Council to share information and coordinate Program activities throughout Halifax Health.

Reporting Issues and Concerns

Every team member has an affirmative duty to report issues or concerns they believe may be in violation of this Code of Conduct, federal, state or local laws, or internal policies and standards. Several channels are available for reporting issues or concerns. If the issue or concern cannot be addressed through the normal chain of command, team members may contact the affiliate's compliance director, or similarly titled individual designated to handle ethics and compliance concerns at that affiliate. You may also try to speak with another member of management, or call the Halifax Health Compliance Officer at 254-4279. Telephone numbers for other members of the Compliance Committee are published in compliance training materials and affiliate telephone directories.

Training

Each new team member is required to attend Corporate Ethics and Compliance training as part of their general orientation. The initial training must be completed within 30 days of employment. Annually, team members are required to attend additional education on a variety of topics pertinent to their job, as well as general training on this Code of Conduct.

Team Member Acknowledgment

Team members will be required to sign a Statement of Understanding upon initial employment and then on a yearly basis (see Appendix B). Signing this Statement of Understanding will be done in conjunction with the initial training session. Team members are required to sign the Statement within thirty (30) days of initial employment, and then annually thereafter in conjunction with their annual team member performance appraisal.

Auditing and Monitoring

Halifax Health is committed to monitoring its activities on a continual basis. A dedicated Internal Audit Department, the Compliance Department, and other compliance personnel conduct audits and investigations in a variety of areas relating to regulatory compliance. Findings may result in corrective action, disciplinary action or changes in our operations. In addition, performance improvement activities occur throughout Halifax Health, and individual departments are required to monitor their performance.

Enforcement, Discipline and Corrective Action

Strict adherence to this Code of Conduct is vital. Supervisors are responsible for ensuring that team members are aware of and adhere to the provisions of the Code of Conduct. For clarification or guidance on any area covered in the Code of Conduct, please consult the compliance director for your affiliate, if applicable, the Halifax Health Compliance Officer, or any other member of the Compliance Committee.

Upon receipt of credible reports of suspected violations or irregularities, the affiliate's compliance official or member of the Compliance Committee will initiate an investigation and recommend corrective action where appropriate. Violations of the Code of Conduct may result in discipline ranging from a warning and reprimand, to discharge, or where appropriate, disclosure to the appropriate government agency, retribution, or filing of a civil or criminal complaint. Disciplinary decisions will be made by operating management, according to our disciplinary action procedures, and subject to review by the Compliance Officer, the affiliate's compliance official or the affiliate's human resources manager. Team leaders may also be disciplined for failing to adequately instruct team members, or for failing to detect non-compliance with applicable policies and legal requirements, where reasonable care would have led to discovery of the problem and an opportunity to correct it.

Limitation on Effect of Code of Conduct

Nothing contained in this Code of Conduct is to be construed or interpreted to create a contract of employment, either express or implied, nor is anything contained in this Code of Conduct intended to alter a person's status of "employment-at-will" with respect to Halifax Health.

Amendments to the Code of Conduct

From time to time, Halifax Health may amend the Code of Conduct, in whole or in part. Changes will be communicated through line management.

> "When aligned around shared values and united in a common mission, ordinary people accomplish extraordinary results."
>
> - Kenneth Blanchard & Micheal O'Connor, from *Managing By Values*

Appendix A - Questions and Answers

If I have a question about a policy or regulation, where can I go?

It is suggested you discuss the issue with your supervisor first. If you are uncomfortable going to your supervisor, you may try to speak with another member of the management team in your affiliate, or the affiliate's compliance director or similarly titled individual, if the affiliate has one. The Halifax Health Compliance Department (254-4278) maintains a resource library of policies, standards, statutes and regulations.

How can I report an issue or suspected violation?

Team members are expected to report any suspected violation of the Code of Conduct or other irregularities to their supervisor or another member of the management team. If you are uncomfortable going to a supervisor, you may go to another member of management, or that affiliate's compliance director, or similarly titled individual.

If you wish to remain anonymous, you may submit a report through the Ethics and Concerns Help Line. Calls made to the Help Line should contain sufficient fact-based information for the affiliate's compliance director to investigate the concerns raised. No attempt will be made to identify any individual who has called the Help Line. All calls received are promptly and confidentially investigated. The Help Line number is:

Halifax Health and affiliates (386) 258-4800

Can I be disciplined for reporting an issue or concern?

No adverse action or retribution of any kind will be taken by Halifax Health against any team member simply because he or she reports a suspected violation or raises a concern in good faith. Team leaders are advised that it is a team member's right to bring up issues, and that this shall never be cause for criticism, penalty or recrimination. Reports will be treated with dignity and respect and kept confidential to the maximum extent possible.

What if my supervisor asks me to do something that I think is illegal or violates the Code of Conduct?

If you know it's wrong, don't do it. Report the request to someone higher up, your affiliate's compliance director, to the Halifax Health Compliance Officer, or a member of the affiliate's Compliance Committee.

How do I know if an action or situation is unethical?

Try answering these three questions with respect to the action or situation.

- Is it legal, that is, does it violate the Code of Conduct, another internal policy, or a law or regulation?
- Is it fair to all concerned?
- Does it feel right?

If the answer to any one of these questions is "no", it's time to ask someone for advice.

Can I accept a $100 gift from a patient?

No. Cash gifts should never be accepted from a patient or from anyone with whom we do business. Non-cash gifts of nominal amount may be accepted. Sometimes, patients may be insistent or offended when their gift is not accepted. An alternative to a cash gift is to suggest the patient make a donation to the affiliate in the name of the team member, or provide a non-cash gift of a nominal amount to the department where the team member works.

Can a department accept a "thank you" gift from a vendor with whom we have an established relationship?

Yes, provided it is nominal in amount, has not been solicited, and is not intended to obtain favorable treatment for the vendor.

Can a department solicit a charitable contribution from a vendor?

Yes, provided the solicitation has the approval of management, and there is no promise, either express or implied, of favorable treatment for the vendor. Also, the charitable contribution must not benefit a specific individual. Charitable contributions may only be applied towards an activity related to the organization's mission.

A friend has asked me to look up medical information on a relative who was a past patient. Can I use the computer to provide the information?

No. Patient information may only be released when authorized in writing by the patient. Generally, information relating to past patients may only be released by the Health Information Management Department or other department designated as the official custodian of the records.

I need to confirm a follow-up doctor's appointment for a patient. Can I leave information about the appointment on the patient's answering machine?

No, because with an answering machine the patient's right to privacy cannot be guaranteed. If you must leave a message on an answering machine or with another person in the household, you should do so in a way that does not disclose any information about the patient's health status or care. The preferred approach is to leave a message with your name and phone number, so the patient can get back to you to for a one-on-one conversation. Another approach is to obtain the patient's advance written permission to discuss health matters with a personal representative of the patient.

Can I maintain a job outside of Halifax Health in addition to my Halifax Health job?

In most cases, yes, you can maintain another job so long as it does not impair your performance or decision-making at your Halifax Health job. The Code requires team members to disclose and obtain permission for outside activities and relationships that may be perceived as a conflict of interest, such as relationships with competitors, customers or suppliers. Members of management and others with "discretionary authority" are required to disclose outside activities and financial relationships annually in writing.

A sales representative asks me for a date every time he visits our facility. I have told him I'm not interested but he continues to ask and it's making me uncomfortable. What should I do?

Unwelcome unsolicited advances of this type may be a form of sexual harassment. In its 1980 guidelines, the Equal Employment Opportunity Commission defined sexual harassment as "unwelcome and unsolicited conduct of a sexual nature including, but not limited to, unwelcome sexual advances, requests for sexual favors, and other verbal or physical conduct of a sexual nature when the conduct is either directly linked to the grant or denial of an economic quid pro quo (give me this for that), or where it has the purpose or effect of unreasonably interfering with the individual's work performance or creating a hostile, offensive and intimidating work environment."

You should report the situation to your supervisor who should then take corrective action. If the behavior continues, you should go to another member of management or the human resources department of the affiliate.

I would like to use a hospital-owned computer and copy machine for some volunteer work I am doing for a civic organization. Is this permitted?

The organization's resources may not be used for personal business without permission. Some charitable uses may be permitted so long as such use does not interfere with one's job duties or the duties of others. In any case, each use for such purposes must be approved in advance.

A close relative owns a company seeking to do business with Halifax Health. He has asked me for information that could help him win a contract with a Halifax Health affiliate. How should I handle this situation?

This situation is addressed by the sections of the Code of Conduct that deal with "Conflict of Interest" and "Halifax Health Restricted Information". A family relationship with an individual doing business with Halifax Health could cause a conflict of interest if you are in a position to recommend or approve purchases from the company. If you provide the information requested, you would be disclosing confidential information and interfering with the competitive bidding process. Any conflict of interest must be disclosed to management, or a member of your affiliate's Compliance Committee. Restricted information may only be disclosed through established channels. In this example, the relative should be directed to the Purchasing Department.

> "Our dreams, goals, ideas come from our values...If what we are doing does not come from what we care about most in life, it is meaningless."
>
> - G.Lynne Snead & Joyce Wycoff, from *To Do, Doing, Done*

Appendix B - Statement of Understanding

1. I have read and understand the Code of Conduct and agree to abide by it to the best of my ability during my relationship with Halifax Health.
2. I know that I have a duty to report any suspected violation of the Code of Conduct to management or a member of the Compliance Committee.
3. I have not been convicted of, or charged with, a criminal offense related to health care.
4. I understand that a violation of the Code of Conduct may be grounds for disciplinary action, up to and including discharge.
5. At this time, I am not aware of any possible violation of the Code of Conduct, except as noted below (attach additional sheets, if needed; anonymous reports can be made by calling 258-4800, or HH ext. 4800):

_____

Physician Relationships: To help Halifax Health comply with regulations pertaining to financial relationships with physicians, please indicate if you are related to a physician as spouse, relative, in-law or step-child, -parent, -grandparent, -brother or -sister:

_____

Name(s) of physician(s) Relationship to you

Hot Topics: This section is designed to remind team members of certain key policies. Please initial each policy in the space provided.

Confidential Information Initial here _____

Team members must safeguard all confidential information and may never discuss such information except to serve patients or conduct Halifax Health business. In particular, team members must protect the privacy of our patients, and the confidentiality of all information related to their care or any past, current or future medical condition. Personal or proprietary information about patients, fellow team members, medical staff and others with whom we do business should not be used or disclosed except with the consent of the person or as allowed by law.

Use of Electronic Systems Initial here _____

Team members may be provided with access to the organization's computer systems. Computer access codes such as user IDs and passwords are like a signature. Access codes must never be disclosed to another. Team members must not attempt to learn another's access code, nor attempt to access a computer system with an access code other than their own. Compromised access codes must be reported to a supervisor immediately. Team members must not use any computer outside their job responsibilities. For example, using the computer to retrieve medical information for a personal reason is not permitted.

The Internet, electronic mail, voice mail and facsimile machines are used throughout Halifax Health. These "electronic messaging" systems are for Halifax Health business purposes only. Sensitive information must not be stored or transmitted on these systems, unless approved safeguards are in place. Consult your department's policies for more information on the use of computers, the Internet and electronic messaging systems.

Signature Date

Printed Name Department and Organization

Appendix C - Affiliate-Specific Standards

The following documents contain additional policies and standards that are specific to Halifax Health companies. If you need to consult any of these documents, ask your supervisor.

Halifax Health Medical Center and its Departments and Affiliates	Hospital-Wide Manual Patient Care Policies, Procedures and Standards Emergency Preparedness Manual Safety Manual
Hospice of Volusia-Flagler	Material Data Safety Sheets Team Member Handbook
Patient Business and Financial Services	Personnel Policy Manual Department Policies, Procedures and Standards
Enterprise Intranet Links	Halifax Health *Pulse*: http://info.halifax.org/ Ethics and Compliance web: http://info.halifax.org/Pulse/Compliance

Appendix D – Halifax Health Antitrust Compliance Plan

The antitrust laws are intended to ensure competition and preserve the free enterprise system. This is a highly complex area, and this document cannot cover all situations where the antitrust laws may apply. For example, antitrust issues may arise in the context of communications with competitors; customer or supplier relations; mergers or joint ventures; or trade association activities. Team members should take special care in this area, and promptly refer any questions directly to General Counsel.

Key Antitrust Violations

In general, the antitrust laws prohibit collusive or exclusionary practices that suppress competition. Such practices include, but are not limited to, any agreement or understanding among or between competitors to: (a) fix prices or price-related terms; (b) allocate customers, services, or territories; or (c) refuse to deal with a supplier or customer except on collectively determined terms. Each of these unlawful practices is explained more fully below:

Price Fixing

Price fixing covers any agreement or understanding involving two or more competing hospitals that directly or indirectly influences the price of the products or services they sell or buy. Such an agreement may be illegal regardless of whether the parties have arrived at a specific price. In addition to agreements to establish specific prices, the following types of agreements among competitors may also constitute unlawful price fixing:

- agreements to use a common formula or method of calculation to determine prices;
- agreements to use a common asking price or starting figure in negotiations with customers, even though downward revisions are likely to take place;
- agreements to use a common strategy in price negotiations with managed care plans or other payers;
- bid rigging, which may take the form of agreements to rotate contracts among potential bidders or to submit "complimentary" (sham) bids;
- agreements to establish uniform or similar discounts or to eliminate or reduce such discounts;
- agreements to establish uniform credit terms or to eliminate or limit such terms;
- agreements on either the timing or the announcement, whether written or oral, of price changes; and
- agreements among purchasers to limit prices at which they will buy supplies or services.

Price fixing is *per se* illegal, meaning that the agreement itself violates the antitrust laws regardless of its business purpose or whether any injury to competition has in fact occurred.

Market Divisions - Allocating Customers, Services or Territories

Any agreement between competitors to allocate customers or potential customers is illegal per se. Such an agreement may involve an allocation by territory, by specific customer or customer classification, or by service rendered. Market divisions, like price-fixing, are among the most serious of antitrust violations. In a recent case, for example, a state attorney general obtained an injunction to block an arrangement between two competing hospitals to allocate clinical services between them. The court held that the allocation scheme was per se illegal under the antitrust laws. In a subsequent settlement of that litigation, the hospitals agreed to pay for the attorney general's litigation expenses, which exceeded $500,000.

Concerted Refusals to Deal (Group Boycotts)

Any arrangement by which two or more competing providers, including hospitals, refuse or threaten to refuse to do business with specific payers or kinds of payers is deemed to be a group boycott and normally constitutes an antitrust violation. A variation on this theme is an agreement between two or more providers not to contract with a payer except on their collectively determined terms, that is, unless the payer agrees to pay higher fees to the providers or agrees to discontinue contracting with other providers. Both HMOs and governmental payers (e.g., Medicaid) have been the targets of actual or threatened group boycotts by providers. In such circumstances, federal and state antitrust agencies have often reacted by initiating civil or criminal antitrust lawsuits against the providers. Private payers that are targets of group boycotts may also assert antitrust claims, and are entitled to a broad range of civil remedies, including the issuance of injunctions and the recovery of treble damages, attorneys' fees and costs.

Prohibited Communications

With the limited exception noted in the section below on joint ventures and other legitimate business collaborations, Halifax Health team members should not engage in any communications, whether orally or in writing, with any competitor that relates to a competitively sensitive matter, including but not limited to any discussion or communication of, or any exchange of information on:

- current or future prices for health care services;
- discounts, discount levels, rebates, or other price-related terms to be offered to customers or suppliers;
- managed care pricing or contracting strategies;
- marketing or promotional initiatives; or
- strategic business plans concerning the development, expansion, contraction, or reconfiguration of any facilities, clinical programs, or services.

Unsolicited Communications from Competitors

If a Halifax Health team member receives any nonpublic information from a competitor about its business intentions, strategies, or practices, the team member should notify the General Counsel immediately. The team member should have no further written or oral communication with the competitor other than to advise it that the matter has been referred to the General Counsel for appropriate review in accordance with Halifax Health's Code of Conduct.

If General Counsel, or an attorney designated by the General Counsel, thereafter determines that the communication was problematic, he or she will take appropriate action, including but not limited to providing written notice to the competitor of the impropriety of such communication and disavowing any interest on the part of Halifax Health in engaging in any further communications of that nature. The General Counsel will maintain a log identifying the source and specific nature of the non-public information received, the circumstances of its communication, and the action taken by the General Counsel.

Joint Ventures and Other Legitimate Business Collaborations

From time to time, Halifax Health may need to disclose -- orally or in writing --nonpublic, competitively sensitive or proprietary information in order to explore the formation or evaluate the performance of a legitimate joint venture or business collaboration between Halifax Health and one or more co-venturers. A joint venture or collaboration is "legitimate" in an antitrust sense if it involves a significant degree of clinical, financial, or operational integration among or between the co-venturers, and has the purpose and effect of providing services more efficiently, improving quality of care, or offering a product or service that otherwise would not be available.

Halifax Health may lawfully disclose pricing or other competitively sensitive information to a responsible independent non-party if and when such disclosure is reasonably necessary to further the legitimate objectives of the joint venture or collaboration. Halifax Health will disclose such information only after a Confidentially Agreement has been executed by the co-venturers. Under the terms of that Agreement, when any pricing, financial or other nonpublic, competitively sensitive information is submitted to an independent third party (usually a business consultant, accountant or attorney), it will be solely for the purpose of evaluating the feasibility of a prospective joint venture or collaboration or the performance of an existing joint venture or collaboration. The independent third party will further agree not to share Halifax Health's submission with any of its actual or prospective co-venturer(s), and vice versa. Upon completion of its business review, the independent third party will destroy all competitively sensitive information or return it to its original source.

In some instances, in order to facilitate decision-making, it may become reasonably necessary and appropriate for the independent third party to share certain non-public information received from one of the co-venturers with the other(s). Accordingly, the Confidentiality Agreement will include the following additional safeguards:

- All nonpublic written or oral information that is exchanged between Halifax Health and a prospective co-venturer(s) will be held in strict confidence and will not be disclosed to any other third party without the written consent of the organization that is the source of such information;
- Any nonpublic written or oral information received by Halifax Health from a co-venturer will be shared within the Halifax Health organization on a "need-to-know" basis, and *vice versa*; and
- If discussions about a possible collaboration are terminated by the parties, any nonpublic documents that may be exchanged between Halifax Health and a prospective co-venturer will be promptly returned to the original source of such documents with all copies destroyed.

Any meetings between Halifax Health and one or more competitors to explore the feasibility or performance of a legitimate joint venture or collaboration shall be attended by the General Counsel or an attorney designated by the General Counsel. The subject matter of such meetings shall be strictly limited to those issues necessary to evaluate the viability, or the actual or potential benefits, of a joint venture or collaboration. To that end, a formal agenda for the meeting should be prepared, subject to the review and approval of the General Counsel or an attorney designated by the General Counsel, prior to the meeting itself.

Market Surveys

Halifax Health team members shall not seek to obtain pricing or other competitively sensitive information directly from competitors in order to conduct a market survey or analysis. Information about competitors shall be obtained from public sources only. Questions relating to the appropriate methods of or appropriate sources for obtaining information about competitors shall be directed to General Counsel.

Trade Association Activities

Trade associations present opportunities for competitors to come together and pursue many legitimate and worthwhile goals. Halifax Health recognizes, however, that trade association activities can also give rise to the risk of anticompetitive collusion if nonpublic, competitively sensitive information is shared among or between competitors who are participating in such activities. Accordingly, any Halifax Health team member attending a trade association meeting, conference or show is required to follow the guidelines below at all times:

- At a trade association meeting, do not discuss with or give your competitors any information concerning prices, salaries, territories, capacity, trade secrets, sales, bidding or contracting strategies, costs, customers, business plans or other marketing practices. If the association intends to conduct a survey of its member-hospitals' prices, costs, salaries or business practices, the team member should confer with the General Counsel before providing any information to the association pursuant to such a survey;
- Do not meet or speak with competitors before, during or after the official trade association meeting. Such informal gatherings are dangerous because at a minimum they create the appearance of impropriety and at worst discussions may slip into competitively sensitive areas that are properly off-limits during the official meeting or at any other time;
- Do not attend any informal or ad hoc sessions with competitors before, during or after the official trade association meeting. Such informal gatherings are dangerous because at a minimum they create the appearance of impropriety and at worst discussions may slip into competitively sensitive areas that are properly off-limits during the official meeting or at any other time;
- Do not participate in, or acquiesce to, any solicitation to engage in a "boycott" or to take other collective action against a private or governmental payer, hospital, or other provider. Trade associations are not labor unions; unlike labor unions, trade associations cannot lawfully bargain or refuse to deal with payers on behalf of their members;
- Be wary of any meetings that are not open to all members of the association. If you find yourself in this type of meeting, leave immediately and contact Halifax Health's General Counsel as soon as possible;

- If there is any reason to believe the trade association is engaging in questionable or illegal behavior, the team member should object and make sure that his/her objection is duly recorded and leave the meeting. Next, the team member should promptly contact the General Counsel and notify him/her of any concerns and, if the General Counsel so advises, the team member should resign from the association;
- If, in the course of a trade association meeting, a team member is asked by an official or member of the trade association to engage in any conduct that is questionable from an antitrust standpoint, he/she should consult with the General Counsel before agreeing to engage in any such conduct;
- Team members have a personal responsibility to understand and adhere to these Guidelines. Each team member attending a trade association meeting must review these guidelines prior to attending any trade association meetings and should direct any questions about these Guidelines to the General Counsel.

Mandatory Participation in Antitrust Compliance Training

Halifax Health is fully committed to compliance with the Florida and federal antitrust laws. In furtherance of this commitment, Halifax Health will provide antitrust compliance training annually to all team members who have managerial responsibilities. Newly hired managers and assistant managers, moreover, shall receive antitrust compliance training within thirty (30) days from the initial date of their employment, and such training shall be acknowledged in writing by Halifax Health's Compliance Officer. Participation by managers and assistant managers in the annual Antitrust Compliance Training session shall be mandatory.

Sanctions for Non-Compliance

It is the responsibility of each team member to ensure that all of the activities of Halifax Health are conducted in compliance with the antitrust laws. Whenever a team member becomes aware of potentially anticompetitive conduct, he or she should promptly contact General Counsel so that timely advice may be provided and effective action may be taken to ensure compliance with the antitrust laws.

Any team member who engages in conduct that violates the antitrust laws, or who knowingly fails to report such conduct in which another team member has been or is engaged, will be subject to discipline, including but not limited to the possibility of suspension or termination of employment.

Appendix E
Federal and State False Claims Acts

Introduction

False claims statutes protect government funded programs from abusive or fraudulent practices by the beneficiaries of such programs. The primary government health benefit programs with which Halifax Health does business are Medicare, Medicaid and TRICARE (formerly CHAMPUS).

Medicare was established in 1965 by Title XVIII of the Social Security Act. It is a federally funded health insurance program for citizens age 65 and older and persons with a long term disability or end-stage renal disease. Medicare consists of four parts. Part A provides coverage for care provided in institutional settings, such as inpatient hospitals and skilled nursing facilities. Part B covers items and services provided by outpatient hospital departments, physicians, certain non-physician practitioners, ambulance companies, laboratories and durable medical equipment suppliers. Part C was established in 1997 as "Medicare Choice" to provide services through health maintenance organizations and preferred provider organizations. In addition to the services covered under Parts A and B, Part C can include wellness and preventative health programs. Part D became effective January 1, 2006 and provides coverage for prescription drugs through private Prescription Drug Plans.

Medicaid was established in 1965 to provide health care coverage and services for low income and financially needy people. Medicaid is administered by the states, and is funded by both state and federal government.

TRICARE is the name of the U.S. Department of Defense's managed health care program for active duty military, active duty service families, retirees and their families, and other beneficiaries.

The laws and regulations governing these programs are complex. Nevertheless, Halifax Health has an obligation to submit claims to these programs that are accurate, complete and in compliance with the applicable regulations and program instructions. Failure to do so can result in heavy fines and costly corrective action.

Federal False Claims Act

The federal False Claims Act was enacted during the American Civil War. Also known as the "Lincoln Act", it was originally intended to prevent fraudulent activities involving military purchases by the Union. The law makes a person liable for fines ranging from $5,500 to $11,000 for knowingly presenting a false of fraudulent claim to a federal government agency or program. In addition, a guilty party may be required to pay three times the amount of damages to the government. A court may assess a lower penalty if the violator promptly discloses the violation and cooperates with the government.

For purposes of the False Claim Act, "'claim' includes any request or demand, whether under a contract or otherwise, for money or property which is made to a contractor, grantee, or other recipient if the United States Government provides any portion of the money or property which is requested or demanded, or if the Government will reimburse such contractor, grantee, or other recipient for any portion of the money or property which is requested or demanded." In health care, claim includes any of the paper or electronic billing forms submitted to a government health care program.

"Knowingly" means that a person, with respect to information on the claim:

- has actual knowledge of the information;

- acts in deliberate ignorance of the truth or falsity of the information; or
- acts in reckless disregard of the truth or falsity of the information; no proof of specific intent to defraud is required.

Actions that give rise to liability under the federal False Claims Act include:

- Knowingly presenting or causing to be presented, to an officer or employee of the United States Government or a member of the Armed Forces of the United States a false or fraudulent claim for payment or approval;
- Knowingly making, using, or causing to be made or used, a false record or statement to get a false or fraudulent claim paid or approved by the Government;
- Conspiring to defraud the Government by getting a false or fraudulent claim allowed or paid;
- Having possession, custody, or control of property or money used, or to be used, by the Government and, intending to defraud the Government or willfully concealing the property, delivering, or causing to be delivered, less property than the amount for which the person receives a certificate or receipt;
- Authorizing to make or deliver a document certifying receipt of property used, or to be used, by the Government and, intending to defraud the Government, making or delivering the receipt without completely knowing that the information on the receipt is true;
- Knowingly buying, or receiving as a pledge of an obligation or debt, public property from an officer or employee of the Government, or a member of the Armed Forces, who lawfully may not sell or pledge the property; or
- Knowingly making, using, or causing to be made or used, a false record or statement to conceal, avoid, or decrease an obligation to pay or transmit money or property to the Government,

The False Claims Act also provides protection from retaliatory acts committed by an employer against an employee for investigating or reporting violations. Remedies can include employment reinstatement, back pay and other compensation.

Florida False Claims Act

As of May 2006, Florida was one of seven (7) states with a False Claims Act (§§ 68.081 – 68.092, Florida Statutes). Under the Florida False Claims Act, any person who presents a false claim to a state agency can be held liable for a civil penalty up to $10,000 per claim and treble the amount of the overpayment paid or incurred by the state agency. If the false claim is disclosed promptly and the person cooperates with the government, the penalty that might otherwise be assessed may be reduced by a court.

"Claim" includes any request or demand, under a contract or otherwise, for money, property, or services, which is made to any employee, officer, or agent of an agency, or to any contractor, grantee, or other recipient if the agency provides any portion of the money or property requested or demanded, or if the agency will reimburse the contractor, grantee, or other recipient for any portion of the money or property requested or demanded.

Actions that can give rise to liability under the state law include:

- Knowingly presenting or causing to be presented to an officer or employee of a state agency a false claim for payment or approval;
- Knowingly making, using, or causing to be made or used a false record or statement to get a false or fraudulent claim paid or approved by a state agency;
- Conspiring to submit a false claim to a state agency or to deceive an agency for the purpose of getting a false or fraudulent claim allowed or paid;
- Having possession, custody, or control of property or money used or to be used by a state agency and, intending to deceive the agency or knowingly conceal the property, delivers or causes to be delivered less property than the amount for which the person receives a certificate or receipt;
- Authorizing to make or deliver a document certifying receipt of property used or to be used by a state agency and, intending to deceive the agency, makes or delivers the receipt without knowing that the information on the receipt is true;
- Buying or receiving, as a pledge of an obligation or a debt, public property from an officer or employee of a state agency who may not sell or pledge the property lawfully; or
- Making, using, or causing to be made or used a false record or statement to conceal, avoid, or decrease an obligation to pay or transmit money or property to a state agency.

Similar to the federal False Claims Act, State law provides protections for any employee who is discharged, demoted, suspended, threatened, harassed, or in any other manner discriminated against in the terms and conditions of employment by his or her employer because of lawful acts done on behalf of the employee or others who investigate or report possible false claims.

Medicaid Integrity Program

Florida law requires the Agency for Healthcare Administration (AHCA), as the Medicaid agency for the state, to oversee the activities of Florida Medicaid recipients, and providers and their representatives. The program established to provide this oversight is called the Medicaid Integrity Program. The purpose of the Program is to ensure that fraudulent and abusive behavior and neglect of Medicaid recipients occur to the minimum extent possible, and to recover overpayments and impose sanctions.

For purposes of the Medicaid Integrity program:

- "Abuse" means provider practices that are inconsistent with generally accepted business or medical practices and that result in an unnecessary cost to the Medicaid program or in reimbursement for goods or services that are not medically necessary or that fail to meet professionally recognized standards for health care. Abuse can also mean a recipient practice that results in unnecessary cost to the Medicaid program.
- "Fraud" means an intentional deception or misrepresentation made by a person with the knowledge that the deception results in unauthorized benefit to herself or himself or another person. The term includes any act that constitutes fraud under applicable federal or state law.

- "Medical necessity" or "medically necessary" means any goods or services necessary to palliate the effects of a terminal condition, or to prevent, diagnose, correct, cure, alleviate, or preclude deterioration of a condition that threatens life, causes pain or suffering, or results in illness or infirmity, which goods or services are provided in accordance with generally accepted standards of medical practice. For purposes of determining Medicaid reimbursement, AHCA is the final arbiter of medical necessity. Determinations of medical necessity must be made by a licensed physician employed by or under contract with the agency and must be based upon information available at the time the goods or services are provided.
- "Overpayment" includes any amount that is not authorized to be paid by the Medicaid program whether paid as a result of inaccurate or improper cost reporting, improper claiming, unacceptable practices, fraud, abuse, or mistake.

When presenting a claim for payment under the Medicaid program, a provider has an affirmative duty to supervise the provision of, and be responsible for, goods and services claimed to have been provided, to supervise and be responsible for preparation and submission of the claim, and to present a claim that is true and accurate and that is for goods and services that:

- Have actually been furnished to the recipient by the provider prior to submitting the claim;
- Are Medicaid-covered goods or services that are medically necessary;
- Are of a quality comparable to those furnished to the general public by the provider's peers;
- Have not been billed in whole or in part to a recipient or a recipient's responsible party, except for such co-payments, coinsurance, or deductibles as are authorized;
- Are provided in accord with applicable provisions of all Medicaid rules, regulations, handbooks, and policies and in accordance with federal, state, and local law; and
- Are documented by records made at the time the goods or services were provided, demonstrating the medical necessity for the goods or services rendered; Medicaid goods or services are excessive or not medically necessary unless both the medical basis and the specific need for them are fully and properly documented in the recipient's medical record.

Suspension or termination from the Medicaid program, and/or fines of up to $5,000 per violation can be assessed for any of the following types of violations against the Medicaid program:

- Non-renewal, suspension or termination of a professional or operating license;
- Failing to make available or refusing access to Medicaid-related records to an auditor, investigator, or other authorized employee or agent of the agency, the Attorney General, a state attorney, or the Federal Government;
- Failing to maintain medical records made at the time of service, or prior to service if prior authorization is required, demonstrating the necessity and appropriateness of the goods or services rendered;

- Failing to be in compliance with provisions of Medicaid provider publications that have been adopted by reference as rules in the Florida Administrative Code; with provisions of state or federal laws, rules, or regulations; with provisions of the provider agreement between the agency and the provider; or with certifications found on claim forms or on transmittal forms for electronically submitted claims that are submitted by the provider or authorized representative, as such provisions apply to the Medicaid program;
- Ordering or furnishing of, goods or services to a recipient which are inappropriate, unnecessary, excessive, or harmful to the recipient or are of inferior quality;
- Demonstrating a pattern of failure to provide goods or services that are medically necessary;
- Submitting or causing to be submitted false or a pattern of erroneous Medicaid claims;
- Submitting or causing to be submitted a Medicaid provider enrollment application, a request for prior authorization for Medicaid services, a drug exception request, or a Medicaid cost report that contains materially false or incorrect information (up to $10,000 fine for this type of violation);
- Collecting or billing a recipient or a recipient's responsible party improperly for amounts that should not have been so collected or billed by reason of the provider's billing the Medicaid program for the same service;
- Including in a cost report costs that are not allowable under the Florida Medicaid reimbursement plan, after the provider or authorized representative had been advised in an audit exit conference or audit report that the costs were not allowable;
- Being charged by information or indictment with fraudulent billing practices; the sanction applied for this reason is limited to suspension of the provider's participation in the Medicaid program for the duration of the indictment unless the provider is found guilty; or
- Ordering or prescribing goods or services and found liable for negligent practice resulting in death or injury.

Besides the standard penalty of $5,000 per occurrence, sanctions imposed by AHCA can include liens placed against a provider's assets, monitored corrective action plans in effect for up to three (3) years, and prepayment review of future Medicaid claims for a specified period of time. Suspected criminal violations identified by AHCA must be referred to the Medicaid Fraud Control Unit in the Office of the Attorney General.

Workplace Practices

Halifax Health leaders recognize that it is not possible for team members to know every Medicare or Medicaid law and regulation that exists. However, team members should be aware of the rules that apply to their job responsibilities. Team leaders are responsible for ensuring that their teams are appropriately informed about relevant regulatory requirements, and that they are adequately supervised.

To prevent and detect false claims, Halifax Health has implemented the Compliance Program described in this Code of Conduct. Team members are encouraged to consult the following compliance resources:

- Compliance program intranet
  (info.halifax.org > Compliance > Medicare/Caid)
- Live instructor and computer-based training on compliance topics
  (info.halifax.org > Compliance > Education)
- Halifax Health compliance standards on government billing
  (info.halifax.org > Compliance > Standards > Government Billing)
- Centers for Medicare and Medicaid Services web site
  (www.cms.hhs.gov)
- Florida Medicare Intermediary & Carrier web site
  (www.floridamedicare.com)
- Florida Medicaid web site
  (www.fdhc.state.fl.us/Medicaid)
- Affiliate-specific and department-specific policies, standards and procedures

References

United States Code Title 31, § 3279, Federal False Claims Act

§§ 68.081 – 68.092, Florida Statutes, Florida False Claims Act

§ 409.913, Florida Statutes, Oversight of the integrity of the Medicaid Program (relating to all types of Medicaid providers)

§ 409.9131, Florida Statutes, Special provisions relating to integrity of the Medicaid program (relating to physicians enrolled as Medicaid providers)

Halifax Health Code of Conduct

This Code of Conduct was prepared for all team members. We hope you will find it helpful whether you are a newcomer or a team member of long duration. We have tried to make this booklet as complete as possible. However, because ethics and compliance policies require almost constant updating to meet the needs of a changing environment, the policies stated here may be revised, amended or deleted as necessary. Changes will be reflected in a subsequent printing or communicated through line management.

HELP LINE NUMBER

Halifax Health and Affiliates (386) 258-4800

Halifax Health Code of Conduct Revision History		
No.	Date	Revision Description
1	11/4/1997	Initial adoption by Halifax Hospital Medical Center Board of Commissioners.
2	10/3/2000	Revised for system-wide applicability; re-approval by Board of Commissioners acting as Directors of Halifax-Fish Community Health, Inc.
3	9/1/2001	Updated telephone numbers for new area code; revised Appendix C.
4	12/6/2001	Added intranet links to Appendix C; updated affiliate list.
5	10/2004	Added Appendix D; updated affiliate information; replaced HFCH identity with HCHS; added Code summary section; physician relationship question added to Statement of Understanding.
6	5/2005	To the Quality of Service section, added web addresses of accrediting organizations and a statement regarding team members who have a safety or quality concern. To the Accurate Books and Accounts section, added a statement regarding fraudulent influence of an auditor or accountant engaged in an audit of financial statements.
7	1/1/2007	Added False Claims Act information to comply with Deficit Reduction Act of 2005; clarified gift acceptance policy; revised section on billing, reimbursement and false claims.
8	1/1/2008	Replaced HCHS identity with Halifax Health.
9	4/20/2011	Mission and Values Statement updated.
10	11/30/2011	Deleted references to FHC Plans; updated intranet link name.